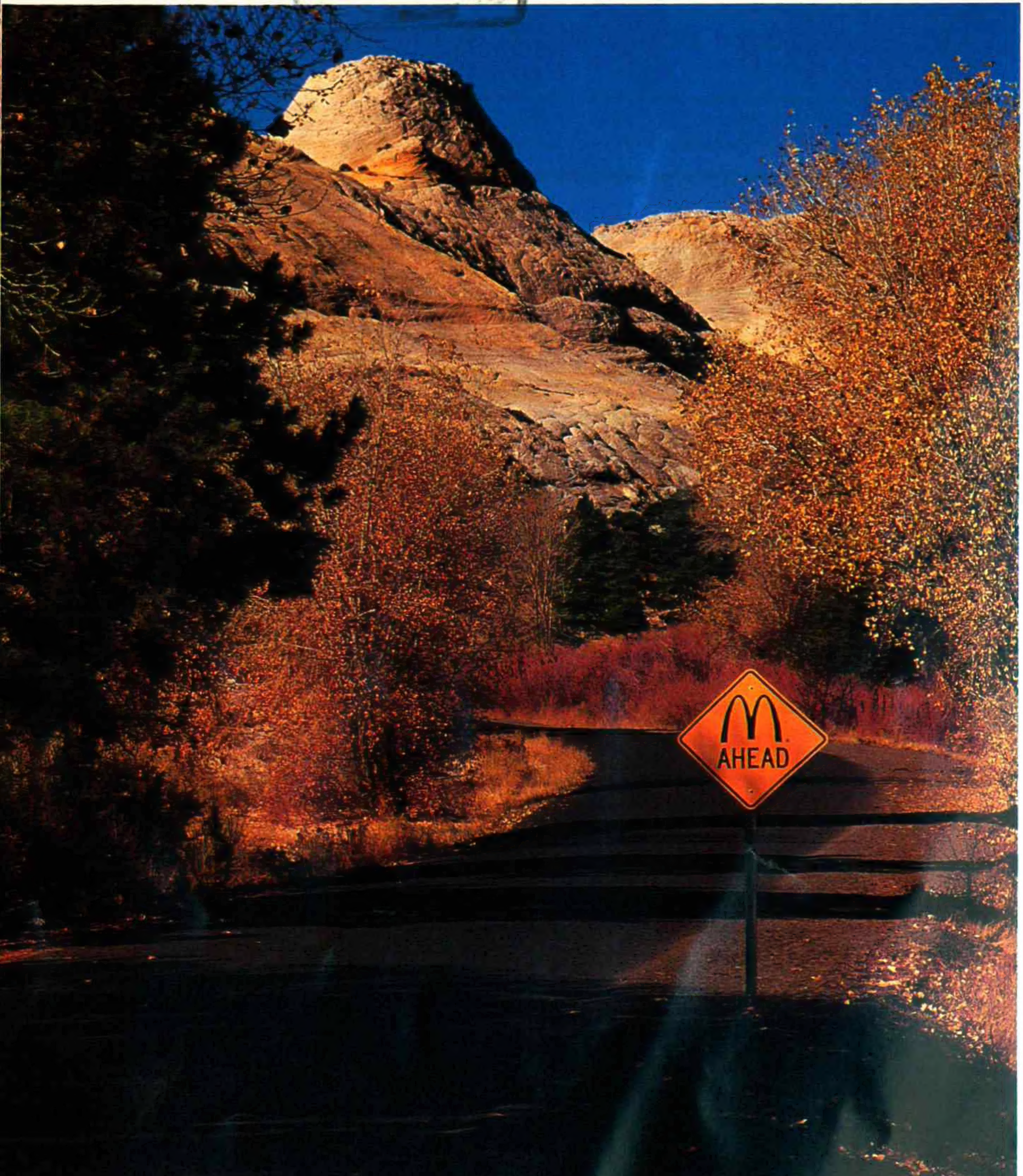
The Annual

McDonald's Corporation 1995 Annual Report



McDonald's is the largest and best-known global foodservice retailer, with more than 18,000 restaurants in 89 countries; yet, our market potential is enormous.

On any day, even as the market leader, McDonald's serves less than one percent of the world's population. We are in a strong position to capitalize on the growth opportunities before us; our strengths include outstanding brand recognition, experienced management, high-quality food, site development expertise, advanced operational systems and a unique global infrastructure. We plan to expand our leadership position by profitably adding restaurants and by increasing sales and profits through superior marketing, excellent operations and cost efficiencies. Our efforts to increase market share, profitability and customer satisfaction have produced consistently high returns to shareholders–an average of 18 percent per year over the past 10 years.

11-year summary

11-year summary	**1995**	1994	1993	1992	1991	1990	1989	1988	1987	1986	1985
	(Dollars rounded to millions, except per common share data and average restaurant sales)										
Systemwide sales	**$29,914**	25,987	23,587	21,885	19,928	18,759	17,333	16,064	14,330	12,432	11,001
U.S.	**$15,905**	14,941	14,186	13,243	12,519	12,252	12,012	11,380	10,576	9,534	8,843
Outside of the U.S.	**$14,009**	11,046	9,401	8,642	7,409	6,507	5,321	4,684	3,754	2,898	2,158
Systemwide sales by type											
Operated by franchisees	**$19,123**	17,146	15,756	14,474	12,959	12,017	11,219	10,424	9,452	8,422	7,612
Operated by the Company	**$ 6,863**	5,793	5,157	5,103	4,908	5,019	4,601	4,196	3,667	3,106	2,770
Operated by affiliates	**$ 3,928**	3,048	2,674	2,308	2,061	1,723	1,513	1,444	1,211	904	619
Average sales by Systemwide restaurants open at least one year, *in thousands*	**$ 1,844**	1,800	1,768	1,733	1,658	1,649	1,621	1,596	1,502	1,369	1,296
Revenues from franchised restaurants	**$ 2,931**	2,528	2,251	2,031	1,787	1,621	1,465	1,325	1,186	1,037	924
Total revenues	**$ 9,795**	8,321	7,408	7,133	6,695	6,640	6,066	5,521	4,853	4,143	3,694
Operating income	**$ 2,601**	2,241	1,984	1,862	1,679	1,596	1,438	1,288	1,160	983	905
Income before provision for income taxes	**$ 2,169**	1,887	1,676	1,448	1,299	1,246	1,157	1,046	959	848	782
Net income	**$ 1,427**	1,224	1,083	959	860	802	727	646	549*	480	433
Cash provided by operations	**$ 2,296**	1,926	1,680	1,426	1,423	1,301	1,246	1,177	1,051	852	813
Financial position at year end											
Net property and equipment	**$12,811**	11,328	10,081	9,597	9,559	9,047	7,758	6,800	5,820	4,878	4,164
Total assets	**$15,415**	13,592	12,035	11,681	11,349	10,668	9,175	8,159	6,982	5,969	5,043
Total debt	**$ 4,836**	4,351	3,713	3,857	4,615	4,792	4,036	3,269	2,784	2,321	1,768
Total shareholders' equity	**$ 7,861**	6,885	6,274	5,892	4,835	4,182	3,550	3,413	2,917	2,506	2,245
Per common share											
Net income	**$ 1.97**	1.68	1.45	1.30	1.17	1.10	.97	.86	.72*	.62	.55
Dividends declared	**$ .26**	.23	.21	.20	.18	.17	.15	.14	.12	.11	.10
Total shareholders' equity at year end	**$ 10.72**	9.20	8.12	7.39	6.73	5.82	4.90	4.55	3.86	3.22	2.84
Market price at year end	**$ $45\frac{1}{8}$**	$29\frac{1}{4}$	$28\frac{1}{2}$	$24\frac{3}{8}$	19	$14\frac{1}{2}$	$17\frac{1}{4}$	12	11	$10\frac{1}{8}$	9
Restaurants at year end											
Systemwide restaurants	**18,380**	15,950	14,163	13,093	12,418	11,803	11,162	10,513	9,911	9,410	8,901
U.S.	**11,368**	10,238	9,397	8,959	8,764	8,576	8,270	7,907	7,567	7,272	6,972
Outside of the U.S.	**7,012**	5,712	4,766	4,134	3,654	3,227	2,892	2,606	2,344	2,138	1,929
Traditional restaurants	**16,809**	15,205	13,993	13,093	12,418	11,803	11,162	10,513	9,911	9,410	8,901
Operated by franchisees	**11,240**	10,458	9,832	9,237	8,735	8,131	7,573	7,110	6,760	6,406	6,150
Operated by the Company	**3,513**	3,083	2,699	2,551	2,547	2,643	2,691	2,600	2,399	2,301	2,165
Operated by affiliates	**2,056**	1,664	1,462	1,305	1,136	1,029	898	803	752	703	586
U.S.	**10,341**	9,744	9,283	8,959	8,764	8,576	8,270	7,907	7,567	7,272	6,972
Outside of the U.S.	**6,468**	5,461	4,710	4,134	3,654	3,227	2,892	2,606	2,344	2,138	1,929
Number of countries at year end	**89**	79	70	65	59	53	51	50	47	46	42

**Before the cumulative prior years' benefit from the change in accounting for income taxes.*

The road signs are everywhere. Some signal that change in the marketplace is accelerating–that competition is increasing, and that customers are demanding more for their money. Others point to a global economy that is already impacting small businesses and worldwide brands. These are the signs that are shaping the road ahead for McDonald's.

The direction we'll follow to navigate that road is McDonald's established growth strategy of improving customer satisfaction, increasing market share and enhancing profitability and returns. These goals have not changed. What *has* changed is our attitude and aggressiveness in attacking them.

We're raising the bar on our own performance, reinventing ourselves to improve our restaurant operations and our purchasing, franchising, training and marketing skills. We're accelerating our global development efforts–resulting in increased convenience, accessibility and market penetration. We're building more McDonald's restaurants in more places where our customers work, shop, live, play, visit, learn and travel–putting more restaurants *into* a market, in order to take a greater share of business *out* of that market.

This expanded growth not only adds shareholder value, it also benefits our franchisees and suppliers–whose businesses can now grow at an accelerated pace.

Given this increase in global development, traditional measures of McDonald's growth–that is, average restaurant volumes, comparable sales, and returns at individual restaurants–are no longer our only means to measure results. Additional measures need to be considered–including market share, and *total* sales and profits of all McDonald's restaurants in the market–to more accurately mark the Company's success. These additional measures also encourage franchisees to gauge their success from a new perspective–based on the results of the aggregate of all their McDonald's restaurants, rather than the results of each individual restaurant.

And while growth of total sales, profits and market share may increase in importance, we remain as intense as ever about succeeding at every individual restaurant we open. In fact, because of lower development and operating costs, new restaurants in the U.S. and in international markets have higher returns, for both the Company and our franchisees, than restaurants added just five years ago. And at those existing restaurants which may be expected to feel the impact of a new McDonald's in the community, growth can also continue–providing we meet customers' expectations.

This year, *TheAnnual* will take you down the roads we are traveling to increase McDonald's market presence, and we'll describe some of the changes that make this development possible.

It all comes down to meeting customers' increasing demand for convenience, good value and great service. To that end, we have embarked on a sharply defined path toward serving and satisfying more customers, while we outperform the competition.

So, look for more McDonald's ahead. And enjoy the drive... it's a great time to be a McDonald's shareholder.

Michael R. Quinlan
Chairman and Chief Executive Officer, Shareholder

Edward H. Rensi
President and Chief Executive Officer–U.S.A., Shareholder

James R. Cantalupo
President and Chief Executive Officer–International, Shareholder

Jack M. Greenberg
Vice Chairman and Chief Financial Officer, Shareholder

March 1, 1996

Systemwide restaurants

at year end	1995	1990
U.S.	11,368	8,576
Outside of the U.S.	7,012	3,227
Systemwide restaurants	18,380	11,803
Countries	89	53

Europe/Africa/Middle East	2,710	1,450
Andorra	2	1
Austria	68	27
Bahrain	2	0
Belgium	43	10
Bulgaria	2	0
Czech Republic	22	0
Denmark	53	15
Egypt	15	0
England	577	356
Estonia	3	0
Finland	46	9
France	429	150
Germany	649	349
Greece	16	0
Hungary	37	4
Iceland	2	0
Ireland	25	10
Israel	21	0
Italy	33	10
Jersey	1	0
Kuwait	5	0
Latvia	2	0
Luxembourg	3	2
Malta	3	0
Monaco	1	0
Morocco	2	0
Netherlands	128	60
Northern Ireland	8	0
Norway	26	6
Oman	1	0
Poland	40	0
Portugal	19	0
Qatar	1	0
Romania	4	0
Russia	5	1
Saudi Arabia	17	0
Scotland	37	17
Slovakia	1	0
Slovenia	5	0
South Africa	2	0
Spain	103	36
Sweden	106	49
Switzerland	62	19
Turkey	44	8
United Arab Emirates	5	0
Wales	27	8
Yugoslavia	7	3

Canada	902	626
United States	11,368	8,576

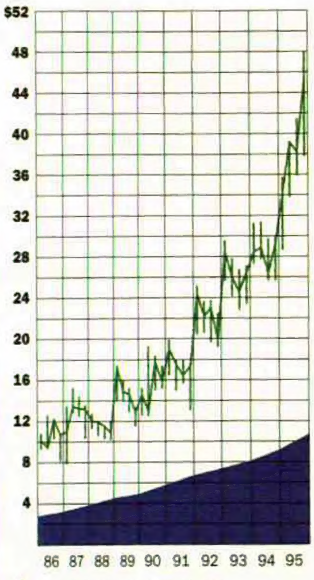
Asia/Pacific	2,735	1,288
Australia	530	269
Brunei	1	0
China	62	1
Guam	5	3
Hong Kong	98	51
Indonesia	38	0
Japan	1,482	776
Macau	5	1
Malaysia	58	22
New Caledonia	1	0
New Zealand	98	46
Philippines	83	32
Saipan	1	0
Singapore	75	34
South Korea	48	4
Taiwan	111	43
Thailand	39	6

Latin America	665	163
Argentina	75	8
Aruba	1	1
Bahamas	4	4
Bermuda*	0	1
Brazil	243	63
Chile	21	1
Colombia	5	0
Costa Rica	14	6
Cuba*	1	1
Curacao	4	3
El Salvador	5	3
Guadeloupe	2	0
Guatemala	15	4
Honduras	1	0
Jamaica	1	0
Martinique	3	0
Mexico	132	21
Panama	15	8
Puerto Rico	75	30
St. Maarten	1	0
Trinidad	3	0
Uruguay	13	0
Venezuela	25	6
Virgin Islands	6	3

*U.S. Navy Base

Market price per common share

in dollars



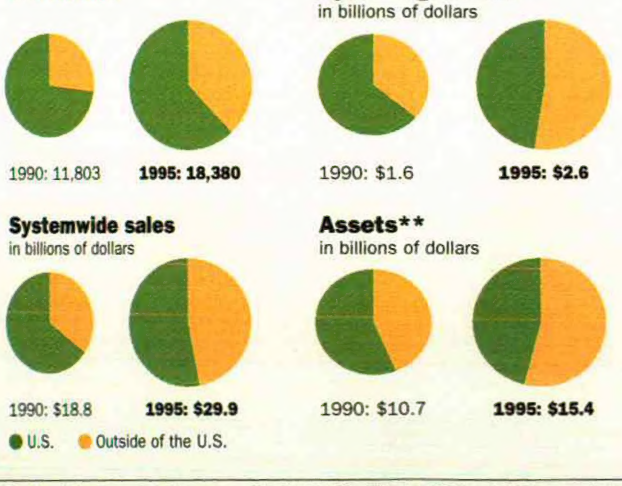
Compound annual growth rates

for the ten-year period ended December 31, 1995

Systemwide sales	10.5%
U.S.	6.0
Outside of the U.S.	20.6
Total revenues	10.2
Operating income	11.1
U.S.	5.2
Outside of the U.S.	23.8
Net income	12.7
Net income per common share	13.6
Cash provided by operations	10.9
Total assets	11.8
Total shareholders' equity	13.4
Total return to investors on common stock	18.4

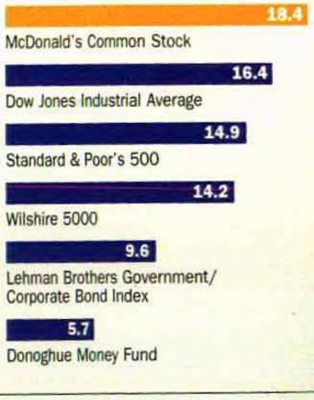
Geographic comparisons

McDonald's business and profits continued to expand in 1995, both in and outside of the U.S. International operations contributed an increasing share of this growth. In 1995, international represented 54 percent of consolidated operating income, compared with 37 percent in 1990.



Compound annual total return to investors

for the ten-year period ended December 31, 1995



*Graph excludes Corporate G&A expense of $48 and $26 million in 1995 and 1990, respectively.
**Graph excludes Corporate assets of $169 and $176 million in 1995 and 1990, respectively.

HOW MANY "BIG WHEELS" IN THIS PICTURE? Just one–the McDonald's Ferris Wheel (background) at Chicago's Navy Pier. Also shown are (standing, left to right) James R. Cantalupo, President and Chief Executive Officer–International; Edward H. Rensi, President and Chief Executive Officer–U.S.A.; Jack M. Greenberg, Vice Chairman and Chief Financial Officer; and (seated) Michael R. Quinlan, Chairman and Chief Executive Officer.

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Investor review

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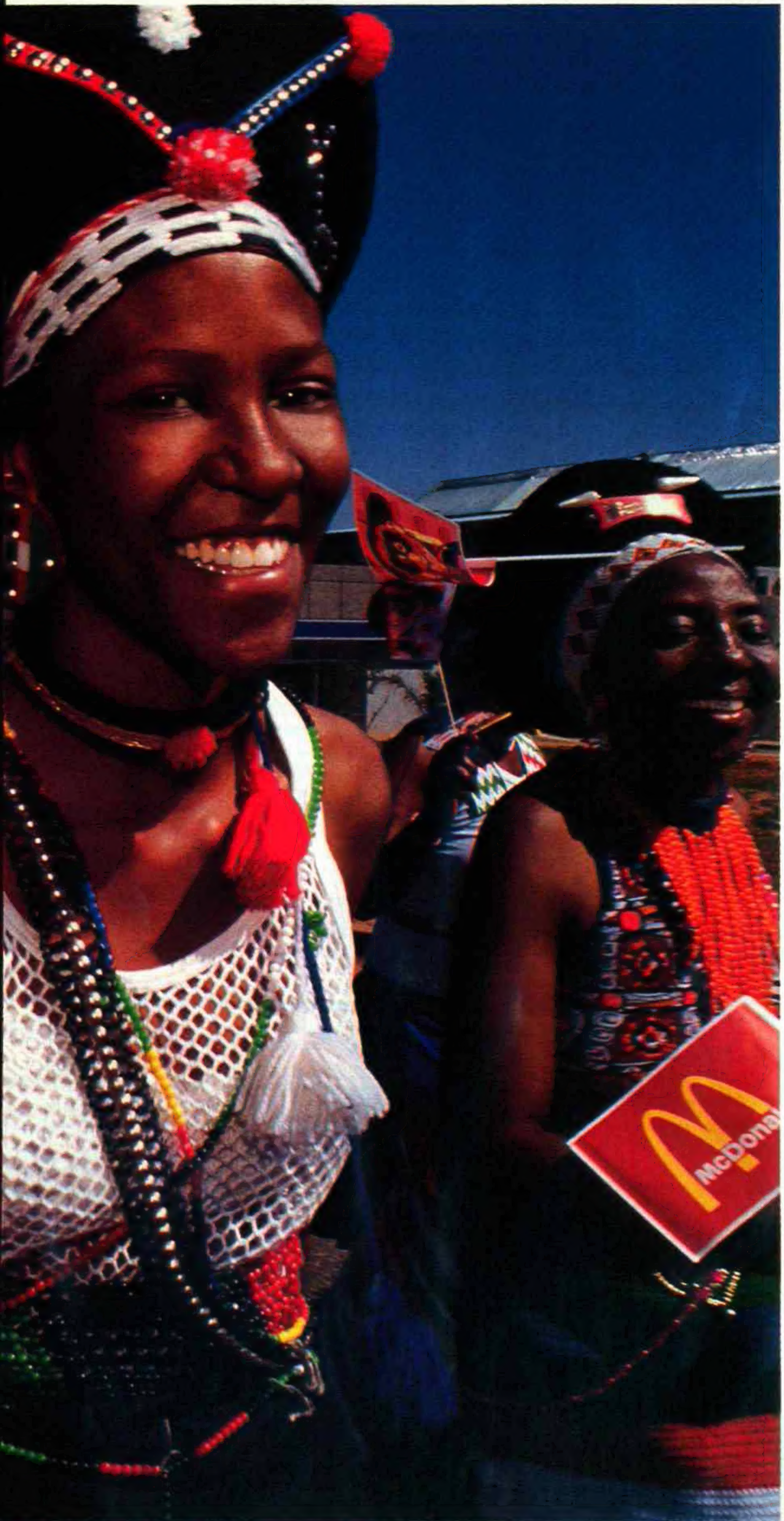
Features



A REASON TO SMILE. In 1995, in thousands of communities around the world, a new McDonald's opened for business–resulting in greater convenience for our customers, an opportunity for new jobs, and an increase in demand for the products and services of local suppliers. Here, as part of the opening of our first restaurant in South Africa, the community celebrates with a parade. The pleasure, however, is all ours...

"There were gaps in the marketplace, and McDonald's found an efficient way for me to fill them. Today, I've got a greater presence in our markets."

McDonald's franchisee Tom Wolf *page 32*

TOP MANAGEMENT TEAM

O. Thomas Albrecht
Senior Vice President, Chief Purchasing Officer

Thomas B. Allin
Senior Vice President, U.S. Zone Manager

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Corporate Vice President

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Senior Vice President

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Senior Vice President

Joseph M. Beckwith
Senior Vice President

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President and Chief Executive Officer–International

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Senior Vice President, International Relationship Partner–Asia/Pacific

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Executive Vice President

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Senior Vice President, Chief Franchising Officer

Michael L. Conley
Senior Vice President, Controller

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Executive Vice President

Carl F. Dill, Jr.
Senior Vice President

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Executive Vice President–U.S.A.

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Patrick J. Flynn
Executive Vice President

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Senior Vice President

Jack M. Greenberg
Vice Chairman, Chief Financial Officer

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Senior Vice President, International Relationship Partner–Europe

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Senior Vice President

Noel Kaplan
Senior Vice President, U.S. Zone Manager

Jeffrey B. Kindler
Senior Vice President, General Counsel

Debra A. Koenig
Senior Vice President, U.S. Zone Manager

Raymond C. Mines, Jr.
Senior Vice President, U.S. Zone Manager

Carleton D. Pearl
Senior Vice President, Treasurer

Paul S. Preston
Senior Vice President, International Relationship Partner–Europe

Michael R. Quinlan
Chairman, Chief Executive Officer

Edward H. Rensi
President and Chief Executive Officer–U.S.A.

Peter D. Ritchie
Chairman–Australia, International Relationship Partner–Pacific

Michael J. Roberts
Corporate Vice President

Lynal A. Root
Chairman, Purchasing Division

Eduardo Sanchez
Senior Vice President, International Relationship Partner–Latin America

W. Robert Sanders
Senior Vice President, U.S. Zone Manager

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Senior Executive Vice President, Chief Marketing Officer

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Executive Vice President, International

Richard G. Starmann
Senior Vice President

Stanley R. Stein
Senior Vice President

Fred L. Turner
Senior Chairman

Delbert H. Wilson, Jr.
Senior Vice President, U.S. Zone Manager

Shelby Yastrow
Executive Vice President

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Chairman, Rio Algom Limited

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James R. Cantalupo

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Vice Chairman

Michael R. Quinlan
Chairman

Edward H. Rensi

Paul D. Schrage

Fred L. Turner
Senior Chairman

June Martino
Honorary Director

ADVISORY DIRECTORS

(Appointed by the Board for a one-year term to serve in a nonvoting capacity)

O. Thomas Albrecht

Thomas B. Allin

Ronald L. Cohen

Andrew E. Taylor

The**Annual**

EDITOR-IN-CHIEF
Jack M. Greenberg

MANAGING EDITORS
Sharon L. Vuinovich, Mary C. Healy

ASSISTANT MANAGING EDITORS
Charles L. Rubner, Jack Daly

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PHOTOGRAPHY
Major photography by Arnold Zann, who has been photographing around the world for 25 years. Other credits include page 3, Danny Hoffman/Black Star; page 14, Fred Brown; page 28 Japan, Neil Krivonak/Black Star; page 31 United Kingdom, Jonathan Taylor/Cloud Nine; New Zealand, Sheena Haywood; and page 48, Westlight.

BY LINE
Articles by Charles L. Rubner, formerly a vice president in McDonald's Communications and Marketing Departments. Now retired, but still with "ketchup in his veins."

ILLUSTRATION
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For other inquiries :
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Financial media relations 1-708-575-6150
Individual investors 1-708-575-7428
International franchising 1-708-575-6112
Investor newsline 1-708-575-6543
Nutrition information center 1-708-575-FOOD
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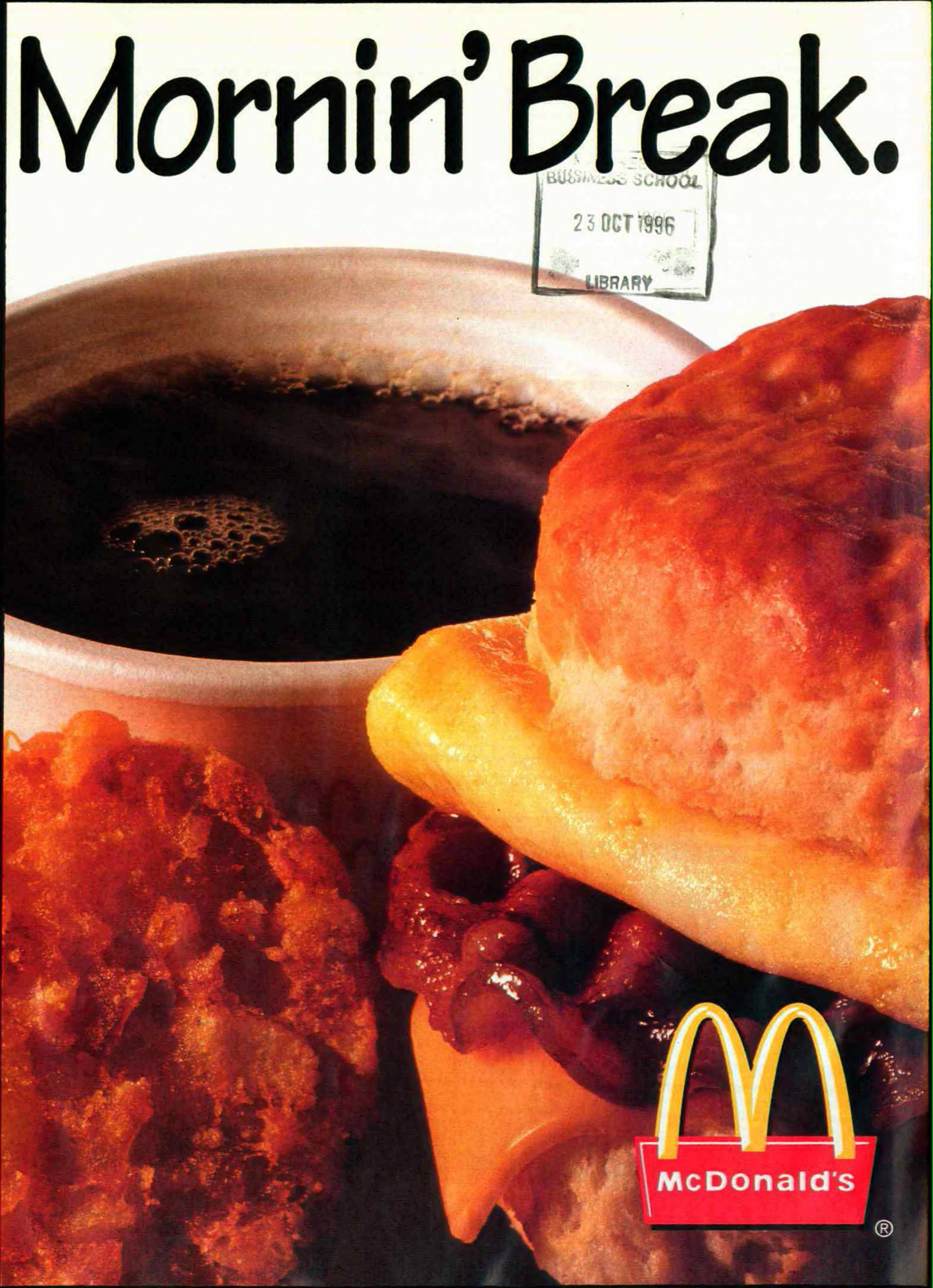
Registrar; stock transfer, dividend disbursing and reinvestment agent
McDonald's Shareholder Services
First Chicago Trust Company
P.O. Box 2591
Jersey City NJ 07303-2591

Annual shareholders' meeting
May 23, 1996, 2:30-4:00 PM (CDST)
McDonald's Office Campus
Oak Brook IL

HOME OFFICE
McDonald's Corporation
McDonald's Plaza
Oak Brook IL 60521
1-708-575-3000


Mornin' Break.
McDonald's

DEAR McDONALD'S:

I just want to tell you, as a registered nurse at Memorial Regional Hospital in Hollywood FL, I really appreciate having McDonald's in the facility. Just know that many, many hospital employees utilize and enjoy the restaurant.

Jackie Arnold, RN
McMom, E-Mail letter

P.S. I hear the same comments from friends at Joe DiMaggio Children's Hospital also at Memorial.

DEAR SIR:

We are very excited about the establishing of McDonald's in South Africa, and look forward to having here in my home country a Big Mac and McDonald's Apple Pie. We are world travelers and have enjoyed McDonald's in the Far East, America, etc. Fantastic!

J. Prinsloo
Johannesburg RSA

DEAR MR. CANTALUPO:

I am writing as a shareholder and recent traveler to Europe, and I must tell you how one of your managers in Paris really saved us. At the end of a long day of sightseeing, my family and I were hot, tired and dying of thirst. Your manager was just locking up, but we pleaded our case and were given wonderful cups of ice water and Cokes–all at no charge. We "merci'd" the manager with our heartfelt Kentucky thanks. We truly thank you for having expanded your restaurants throughout Europe.

Judy Pruitt & Family
Lexington KY

TO ALL EMPLOYEES:

On December 28 my four children and I were in your restaurant in Veenendaal. After we enjoyed our meals, my daughter Marleen found she had forgotten her favorite toy. I telephoned the restaurant, and despite how busy you were, your staff immediately went to find it. The next morning a package arrived at our house with the cuddle toy, other Happy Meal toys and a friendly note to Marleen. My whole family thanks you for your great friendliness to guests. A lot of companies in The Netherlands can take McDonald's as an example.

The van der Brink Family
Oss NL

DEAR MR. RENSI:

I would like to tell you about a McDonald's employee at your Calverton restaurant in Beltsville MD. Some say Jeff George Wilson is physically inconvenienced. But let me tell you, Jeff is hard working and always has a smile, no matter how hectic it gets. It's a busy and popular restaurant due in large part to Jeff and his personality. Everyone complains when something is wrong, but rarely say anything when something is right. Jeff is very right.

Mrs. Marie T. Grogan
Beltsville MD

DEAR MADAM:

On the 23rd December 1995, we dined at the China HK City McDonald's, where we noticed one of your staff called 黃文禹. He didn't just provide good, efficient service, but was also very courteous to all guests he encountered. We have always appreciated McDonald's in Hong Kong, especially the work you provide for elderly and handicapped, and your charity work for children. We are always proud of you and will be continuous to support your product. Thank you!

Vivian Tse
Kowloon HK

HOW ARE WE DOING?

As shareholders and customers, we're interested in your thoughts about McDonald's. You can write to us in care of Investor Relations, McDonald's Corporation, McDonald's Plaza, Oak Brook IL 60521.

Strategies for global dominance

McDonald's Seizes New Growth Opportunities

McDonald's became the world's leading foodservice company by being better than competitors. We've always had competition. Back in 1955, when Ray Kroc founded McDonald's Corporation, there were diners, delis, pubs, bistros, pizza parlors, and ma and pa establishments. In recent years, competition has intensified. Today, it includes microwave ovens, take-outs, street vendors, convenience food stores, computer on-line grocery services and scores of new restaurant chains.

For McDonald's, competition has always meant opportunity–the opportunity to discover new sources of sales, profits and market share . . . to apply our strengths in unique ways . . . to exercise the pioneering spirit that created drive-thrus, Happy Meals, Hamburger University and our world famous brand . . . and the opportunity to reach across international borders. We are now an intricate system of more than 18,000 restaurants in 89 countries spanning six continents, run by more than one million employees, franchisees and suppliers.

By creating this system, managing it, refining it and adjusting it to respond to customer needs on a timely basis, McDonald's continues to maintain its competitive advantage. We intend to build on these strengths to grow our business and produce attractive returns for shareholders through our Convenience, Value and Execution Strategies. Our growth opportunities remain significant: on any given day, 99 percent of the world's population does not eat at McDonald's . . . yet.

McDonald's vision is to dominate the global foodservice industry. Global dominance means setting the performance standard for customer satisfaction while increasing market share and profitability through our Convenience, Value and Execution Strategies.

CONVENIENCE STRATEGY To Increase Market Share

Our Convenience Strategy makes McDonald's restaurants easy to reach. Research tells us more than 70 percent of all decisions to eat at McDonald's are made on the spur of the moment, so our goal is to be as convenient as possible for our customers to visit.

Last year, we added convenience by building 2,400 restaurants around the world, up from 1,800 the year before. We plan to add between 2,500 and 3,200 restaurants in both 1996 and 1997, with about two thirds outside of the U.S. In other words, we opened more than six restaurants per day in 1995; over the next two years, we plan to open eight a day.

Low-cost Growth

Our low-cost approach to development supports this accelerated level of expansion by creating new opportunities for growth. We have reduced the cost of a new U.S. traditional restaurant by 26 percent over the last five years, and many markets outside of the U.S. have achieved similar or better savings. How was this achieved? The cost of building materials and equipment was reduced through standardization and global sourcing–the combining and leveraging of worldwide sources of supply. Improved construction methods and more efficient building designs have also lowered building costs and reduced land requirements. And we continue to look for ways to reduce costs further.

McPLANE! The world's first flying McDonald's takes off on April 1, with service catering especially to children. Used by Swiss tour operator, Hotelplan, it will provide McDonald's food and fun.

OUR CONVENIENCE STRATEGY continues to emphasize traditional restaurant growth. This restaurant in Edgefield SC, is one of the new, more efficient buildings we are adding throughout the U.S.

Flexible Approach

We seek to profitably capture market opportunities by using a flexible restaurant design approach that complements traditional development with satellite restaurants. Traditional restaurants represent the majority of our growth. Our co-branding ventures with well-known oil companies such as Amoco and Chevron in the U.S., AGIP in Italy and Imperial Oil in Canada create potential for thousands of new traditional McDonald's restaurants around the world. These ventures with oil companies not only provide prime locations, they also result in lower restaurant development and operating costs.

Satellite restaurants–smaller, lower sales volume units that serve a simplified menu–are often built in unique locations such as zoos, hospitals and airports. In addition, we operate satellite restaurants in retail establishments like Wal★Mart, The Home Depot, Carrefour, Incredible Universe, Sega and other major stores worldwide. For example, we currently operate in nearly 800 Wal★Mart stores throughout the U.S., Canada, Mexico and Puerto Rico, and we plan more sites next year. In fact, of the 2,500 to 3,200 restaurants we expect to add annually in 1996 and 1997, 700 to 1,000 will be satellite restaurants.

Worldwide Demand

Our goal in the U.S. is to profitably increase sales to existing customers and to penetrate the portion of the market we do not serve. Currently, McDonald's operates about 11,400 U.S. restaurants, which represent less than 3 percent of total U.S. restaurants and 6.6 percent of total U.S. restaurant sales. That leaves 93.4 percent, or more than $220 billion, as our target market.

Outside of the U.S., our goal is to establish a leading market position before competitors even consider the market. The faster we add restaurants in new markets, the stronger our foothold.

The majority of our restaurant openings are in markets in which we have been operating for some time. But we also expand into new markets, where lines on opening day can be miles long. This represents the power of McDonald's brand. Often, our challenge is to keep up with demand. In China, for example, there are only 62 McDonald's to serve a population of 1.2 billion.

Our Convenience Strategy is aimed at profitably meeting this worldwide demand for McDonald's as quickly and efficiently as possible.

Traditional restaurants at year end
Satellite restaurants at year end

VALUE STRATEGY To Build Profitability

While our Convenience Strategy makes it easier to visit our restaurants, our Value Strategy draws customers in and keeps them coming back. We continually seek new opportunities to deliver better value to customers by lowering costs and establishing value beyond price.

In addition to reducing development costs so we can build restaurants more economically, we reduce operating costs so we can run them profitably while keeping prices low for customers. Our intent is to maintain a margin gap over competitors, and we have several distinct advantages. First, our large volume of transactions–we serve more than 33 million customers every day–provides economies of scale. Second, our ownership of 54 percent of our sites, coupled with long-term leases on the others, controls occupancy costs. Third, our global infrastructure creates purchasing and operating efficiencies.

Price brings customers in the door. But the value of the entire experience–tasty food . . . fast and accurate service . . . friendly people. . . clean restaurants . . . and the comfort of the entire experience–that's what brings customers back.

Saving Millions

The McDonald's System purchases about $10 billion in food, paper and restaurant equipment every year from our network of suppliers. Global sourcing capitalizes on this network to secure low-cost, high-quality goods. Our goal through global sourcing and other initiatives is to save $750 million in annual Systemwide costs by 1998.

Lower operating and development costs allow us to provide customers great deals, such as our popular Happy Meals and Extra Value Meals, which account for more than half the regular menu transactions in the U.S. and an even higher proportion in some other countries.

The McDonald's Experience

We became a leader worldwide by offering value in ways that extend beyond price. Regardless of how competitors price their products, they can never duplicate the total experience that is Brand McDonald's. Top-quality games and tie-ins with movies, sports and other entertainment events are an important part of the McDonald's experience. We look forward to the results of our sponsorship of the 1996 Olympics, which will be watched by an estimated cumulative 35 billion television viewers. And for the first time, we will be feeding the athletes, coaches and officials in the Olympic village.

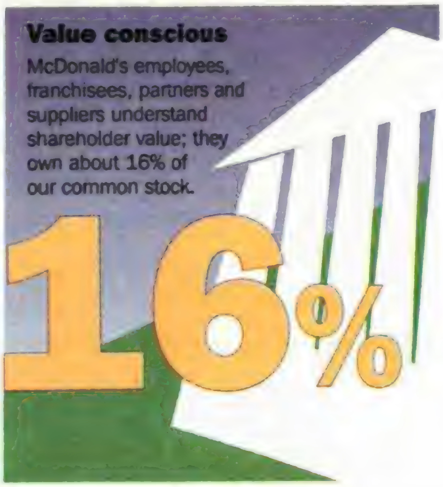
A unique addition to the McDonald's experience is our indoor Ronald's Playplaces, designed to give moms and dads a break while their children enjoy active play. We opened about 800 Playplaces in 1995 and plan more in 1996 to build sales and profits.

A Break Today

We nurture our value image through marketing. Advertising, public relations and promotions inform customers of the many benefits they will enjoy at McDonald's: great value, great taste and great fun. For example, the concept of a "break" from high prices and busy lifestyles has been tied to McDonald's for more than 25 years. We emphasize that value in our current theme, "Have You Had Your Break Today?"

We also reach customers through nontraditional marketing. For example, in April 1996, we will launch McDonald's home page on the World Wide Web. Our site will focus on the McDonald's System around the world, community involvement, McDonald's food products and nutrition, career opportunities, the environment and "McDonaldland," a section for kids. You can find us at http://www.mcdonalds.com.

In 1995, Systemwide advertising and promotion expenditures totaled approximately $1.8 billion, or 6 percent of sales. These are funded in part through advertising cooperatives around the world, which combine contributions from our restaurants so media can be purchased cost effectively, supporting our Value Strategy.



McDONALD'S MEANS VALUE WORLDWIDE. In 1995, the McDonald's experience was extended to 11 new countries: Colombia, Estonia, Honduras, Jamaica, Jersey, Malta, Qatar (above), Romania, Slovakia, South Africa and St. Maarten.

"McDonald's really works on your tastebuds."

EXECUTION STRATEGY To Improve Customer Satisfaction

Our Execution Strategy builds brand equity by focusing operations on our high standards of Quality, Service and Cleanliness. The McDonald's brand is one of the most famous in the world; it has cross-cultural, cross-generational appeal. To preserve and build the value of our brand, our goal is 100 percent customer satisfaction.

We adopt a customer perspective, providing the taste and service customers want. We use a variety of tools to measure customer satisfaction, including surveys that are automatically scanned and summarized. Then we give customers more of what they want.

What They Want

Customers want good taste. From Argentina to New Zealand, Sweden to Taiwan, people love our proprietary products like Big Mac sandwiches, World Famous Fries and Egg McMuffin sandwiches.

Customers also want fast, accurate and friendly service. We have defined each parameter; for example, fast is measured in numbers of seconds. Then we track performance and respond. For example, our customers' desire for friendly, accurate, hassle-free service led to the development of face-to-face drive-thrus, now standard in all new U.S. restaurants.

Customers want to dine in clean, inviting surroundings and they appreciate McDonald's consistency and reliability in this area. We make cleanliness a priority. For example, cleanliness is a key criteria in new equipment design, kitchen layout and cooking procedures.

In many areas, we support customers' desires as well as our own operating standards: we never compromise on food safety... we enforce stringent product specifications ... and our quality assurance centers in the U.S., Europe and Asia work closely with our suppliers to test products and inspect production facilities on a regular basis.

McDonald's supports well-balanced nutritional habits. For more than 20 years, we have made nutrition and ingredient information available so customers can see how our products can be part of a healthy diet. Our team of nutritionists works closely with healthcare professionals and nutrition organizations worldwide.

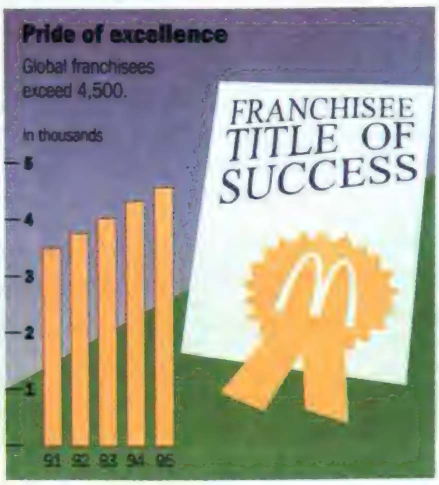
Ph.D. In Excellence

Developing people is key to exceptional execution. We hire talented people, pay them competitively, train them well and promote promising employees quickly. Training in the restaurant includes day-to-day coaching and technology-assisted programs. Aspiring restaurant managers attend our two-week advanced operations and management class at Hamburger University (HU). Each year, HU instructors at campuses in the U.S., Germany, England, Japan and Australia train more than 5,000 students, including franchisees and corporate management, in 22 languages. The ultimate goal of all our training efforts is to give employees the tools and knowledge necessary to provide 100 percent customer satisfaction.

Positioned For Growth

McDonald's restaurants around the world are operated through a variety of structures: franchises, developmental licenses, joint ventures and Company operations. These ownership and operating formats give us flexibility to address individual market needs.

Franchising is our most widely used and effective way to grow the business. About 66 percent of our restaurants are franchised to about 4,500 owner/operators around the world. We share the initial investment–the franchisee purchases the equipment, signs and seating, while the Company owns or controls the land and building. Over the term of the franchise agreement, the Company receives rent and service fee income based on a percent of sales. We are highly selective in granting franchises, recruiting only motivated, talented entrepreneurs to be active, on-premise owners. In turn, franchisees have the opportunity to grow their businesses through hard work and the support of the entire McDonald's System.



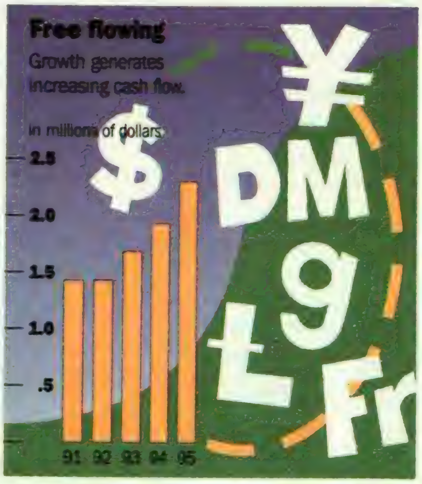
ARCH DELUXE, currently in test, was developed to appeal to adult tastes. The quarter pound beef patty on a bakery style roll is topped with American cheese, tomato, leaf lettuce, onions, ketchup, a special chef's sauce and seasoned bacon.

In limited cases, we use developmental licenses, which are similar to franchises from an operating perspective, but allow us to expand with no financial investment by the Company. Joint-venture partnerships, in which the Company shares in the operating profits of the business, are primarily used in countries in which our partner's understanding of the local business environment is paramount.

About 21 percent of McDonald's restaurants are operated by the Company. We maintain a global base of Company-operated restaurants to generate profits, link our interests with franchisees, develop management talent, gather research, and test ideas for better restaurant execution.

STRATEGIES To Build Shareholder Value

McDonald's strategies are designed to create financial success–for the Company, for franchisees, for partners, for suppliers and ultimately, for shareholders. Our profitable growth throughout the years is reflected in the value of individual McDonald's restaurant businesses and in the price of our stock.



McDonald's became a publicly-held company in 1965. Twenty years later, we were named one of 30 blue chip stocks in the Dow Jones Industrial Average. An investor who purchased 100 shares of our stock in 1965 for $2,250 would have owned, at year-end 1995, 37,180 shares worth nearly $1.7 million. This increase in value reflects 123 consecutive quarters of record sales and earnings.

Spreading The Wealth

Fostering a mutual interest among members of the McDonald's System and our shareholders through stock ownership has long been an important objective. We are proud that 16 percent of our common stock is owned by System members and believe that this ownership reflects their confidence in the future of our business.

Cash Counts

Along with earnings, our cash flow has grown substantially–cash from operations over the past five years totaled $8.8 billion, compared with $5.6 billion in the previous five years. Strong and growing cash flow is one indication of our financial strength. Our AA credit rating, which we have enjoyed since 1982, is another.

Our cash flow gives us opportunities to grow the business and benefit shareholders in several ways. One way is through reinvestment: we add restaurants as part of our Convenience Strategy and we also invest to support our Value and Execution Strategies, designed to increase sales and profits at our restaurants. As a result, in 1995, our business generated a return on assets of 17.9 percent and a return on equity of 19.9 percent.

Totaling Returns

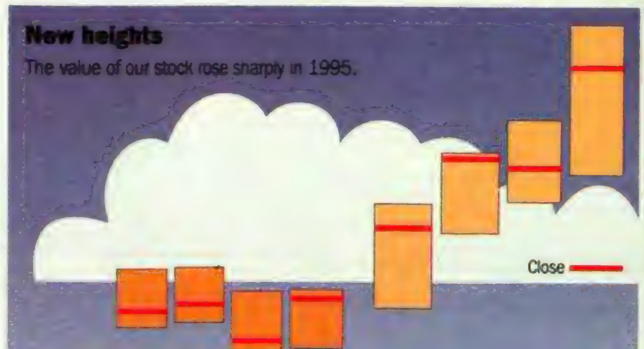
Even with our rapid rate of expansion, our cash flow has exceeded capital expenditures since 1991. We primarily use the excess to enhance shareholder's total return through share repurchase.

The total return on McDonald's stock is made up of capital appreciation and dividends. Capital appreciation has comprised about 99 percent of the total return on our stock over the past ten years, and we continue to focus on this aspect of increasing shareholder value. We have found that one of the most effective ways to enhance capital appreciation is by buying back our stock. Stock repurchase spreads profits over fewer shares, making each remaining share more valuable. Over the past ten years, we have repurchased $2.8 billion of our common stock and we plan to repurchase up to another $2.2 billion within the next three years.

Since 1992, the strength of our business and our growing cash flow have allowed us to accelerate expansion and repurchase stock at the same time.

In addition, we have continued to pay increasing dividends. Since our first dividend in 1976, we have paid 79 consecutive dividends, increasing the per share amount 21 times.

Our total return approach works: the compound annual rate of return on McDonald's common stock for the ten years ended December 31, 1995 reached 18.4 percent, compared to 14.9 percent for the Standard & Poor's 500 and 16.4 percent for the Dow Jones Industrial Average.



Quarterly stock price range

	1994 1	1994 2	1994 3	1994 4	1995 1	1995 2	1995 3	1995 4
High	$31 1/4	$31 3/8	$29 3/4	$29 7/8	$35 3/4	$39 1/4	$41 1/2	$48
Low	27 1/4	27 5/8	25 5/8	25 7/8	28 3/8	33 3/4	35 7/8	37 3/4
Close	28 3/8	28 7/8	26 1/8	29 1/4	34 1/8	39 1/8	38 1/4	45 1/8
Shareholders at year end				529,321				751,809

Sharing our success–McDonald's takes active community role

Our commitment is to give back to the communities that have made McDonald's successful. We use the innovation that has made us a market leader to creatively fulfill a wide range of opportunities for social leadership.

Neighborhood Spirit

We put our commitment to being a good neighbor into action. Our franchisees take an active role in supporting local schools, recreational centers, libraries, churches, businesses and other interest groups. McDonald's restaurants around the world support civic and charitable activities. McDonald's in Canada annually sponsors McHappy Day, donating a percentage of that day's sales to local children's organizations. All McDonald's European grand openings include donations to local charities. In the U.S., we work with schools and fire departments to promote fire safety–on trayliners, in pamphlets and in videos–during Fire Safety Week. In Singapore, we constructed a safety park in which children receive instruction on bicycle and road safety.

Environmental Care

We seek to improve our customers' quality of life tomorrow by caring for the environment today. Our environmental commitment covers three areas: we reduce, reuse, recycle, conserve and protect natural resources . . . we encourage environmental values and practices . . . and we ensure accountability by restaurants and suppliers throughout the world. McDonald's does not, has not, and will not permit the destruction of tropical rainforests for our beef supply, a policy we strictly enforce and closely monitor. By redesigning our packaging, we reduced material use by more than 3,000 tons in 1995. We used more than 200,000 tons of recycled packaging last year and reached our target of $1 billion of recycled purchases five years ahead of schedule. A new initiative being tested in Europe is restaurants that maximize energy efficiency by incorporating solar features.

World Of Opportunity

McDonald's and our franchisees provide jobs for more than a million people worldwide. Our commitment to employees includes offering wages that are fair, equitable and nondiscriminatory; ensuring a working environment that teaches job skills and rewards both individual and team performance; and creating career growth opportunities. More than half of the Company's middle and senior management started their careers as restaurant crew, as did more than one third of our owner/operators.

All Walks Of Life

We satisfy customers best through a diverse mix of employees, franchisees and suppliers from all walks of life. We attract and retain employees and develop their potential without regard to race, sex, religion, ethnic or cultural background. Currently, 21 percent of Company officers are minority men and women, and one female and one minority male serve on our Board of Directors. We are proud that more than 50 percent of middle management employees and more than 25 percent of franchisees are females and minorities. Our franchisees are the largest group of minority entrepreneurs in the U.S. Total annual purchases from women- and minority-owned suppliers exceeded one-half billion dollars over the past several years.

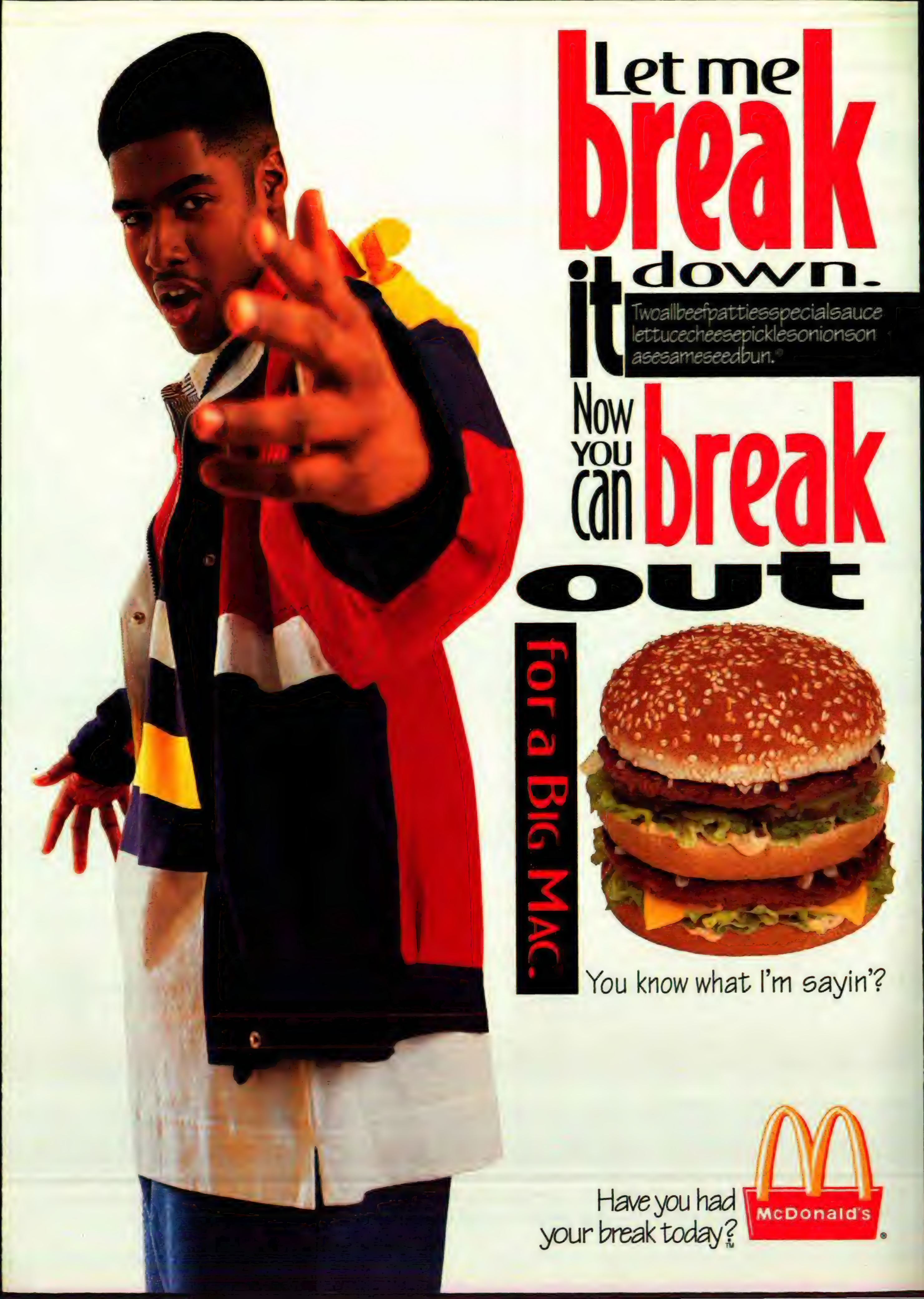
Educational Excellence

As a large employer of youth, education is a high priority. Our Education Department works with educators, schools, franchisees and employees to coordinate a variety of initiatives. We support flexible work hours to accommodate classroom schedules; we develop educational curricula and offer them to schools at little or no cost; and we encourage academic achievement through programs such as the Ray A. Kroc Youth Achievement Award. We recently partnered with The Walt Disney Company to sponsor The American Teacher Awards honoring top teachers throughout the country.

House That Love Built

Ronald McDonald House Charities (RMHC) focuses on "Lifting Kids To A Better Tomorrow" through grants to not-for-profit children's programs and support of Ronald McDonald Houses in communities around the world. Ronald McDonald House is a home-away-from-home for families of seriously ill children receiving treatment at nearby hospitals. At the end of 1995, there were 168 houses in 12 countries serving more than 2,500 families every night. RMHC provides grants for civic and social services, education and the arts, and health care and medical research. It also assists families in need including victims of hurricanes, floods and earthquakes. Since its inception in 1984, RMHC has awarded more than $95 million to thousands of organizations serving children.

Joan Kroc, widow of McDonald's Corporation founder Ray Kroc, has been an ardent supporter of McDonald's charitable efforts for many years and recently donated $50 million to RMHC. We are most grateful for this gift because it will enable RMHC to give opportunity and hope to many more children and families than ever before.


Let me
break
it down.
Twoallbeefpattiesspecialsauce
lettucecheesepicklesonionson
asesameseedbun.®
Now
you
can
break
out
for a Big Mac.
You know what I'm sayin'?
Have you had
your break today?™
McDonald's
®

Analyzing financial performance

Consolidated operating results

Increases (decreases) in operating results over prior year

(Dollars rounded to millions, except per common share data)	1995 Amount	1995 %	1994 Amount	1994 %
Systemwide sales	**$3,927**	**15**	$2,401	10
Revenues				
Sales by Company-operated restaurants	**$1,071**	**18**	$ 636	12
Revenues from franchised restaurants	**403**	**16**	277	12
Total revenues	**1,474**	**18**	913	12
Operating costs and expenses				
Company-operated restaurants	**903**	**19**	481	12
Franchised restaurants	**80**	**18**	55	14
General, administrative and selling expenses	**153**	**14**	142	15
Other operating (income) expense–net	**(22)**	**26**	(22)	35
Total operating costs and expenses	**1,114**	**18**	656	12
Operating income	**360**	**16**	257	13
Interest expense	**34**	**11**	(10)	(3)
Nonoperating income (expense)–net	**(43)**	**88**	(56)	NM
Income before provision for income taxes	**283**	**15**	211	13
Provision for income taxes	**80**	**12**	69	12
Net income	**$ 203**	**17**	$ 142	13
Net income per common share	**$ .29**	**17**	$ .23	16

NM - Not Meaningful

Systemwide sales and restaurants

Systemwide sales are comprised of sales by restaurants operated by the Company, franchisees and affiliates operating under joint-venture agreements between McDonald's and local businesspeople. The 1995 and 1994 sales increases were primarily due to expansion. Stronger foreign currencies and higher sales at existing restaurants also contributed to these increases. Sales by Company-operated restaurants grew at a higher rate than Systemwide sales in 1995 and 1994. For both years, the number of Company-operated restaurants grew at a higher rate than Systemwide restaurants, and for 1995, Company-operated comparable sales were also stronger than Systemwide comparable sales.

Average sales by Systemwide restaurants open at least one year were $1,844,000 in 1995, $44,000 higher than in 1994. Average sales improved due to stronger foreign currencies and higher sales at existing restaurants, partially offset by lower average sales for newer, smaller restaurants. The Company expects that average sales will continue to be affected by an increasing proportion of lower-volume sites. Profitable expansion into these sites, consistent with our Convenience Strategy to gain market share, has been made possible by a low-cost approach to restaurant development.

Expansion continued at an accelerated pace as 2,430 restaurants were added Systemwide in 1995 (1,604 traditional and 826 satellites), compared with 1,787 in 1994 (1,212 traditional and 575 satellites) and 1,070 in 1993 (900 traditional and 170 satellites). Generally, satellite restaurants offer a simplified menu and are smaller in size and sales volume compared to traditional restaurants. McDonald's plans to add between 2,500 and 3,200 restaurants around the world annually in 1996 and 1997. Between 1,800 and 2,200 of the additions will be traditional restaurants, with approximately two thirds outside of the U.S. The remainder will be satellite restaurants, about half of which will be in the U.S. This higher level of openings is attributable to our low-cost approach to restaurant development as well as the potential of our alliances with major oil companies and retailers. Based on our experience with oil alliance sites, we have determined that the majority of future expansion for these venues will be traditional restaurants rather than satellite restaurants as originally planned.

The consolidated financial statements reflect the operating results of satellite restaurants on the same basis as traditional restaurants. The results of satellites operated by the Company are included in sales by and costs of Company-operated restaurants, while those operated by franchisees are included in revenues from and costs of franchised restaurants. Traditional restaurants opened during the year contributed $1,002 million to Systemwide sales in 1995, $799 million in 1994 and $572 million in 1993. Satellite restaurants opened during the year contributed $190 million to Systemwide sales in 1995 and $92 million in 1994.

Total revenues

Total revenues consist of sales by Company-operated restaurants and fees from restaurants operated by franchisees and affiliates based on a percent of sales with specified minimum payments. The minimum fee includes both a rent and service fee amount at a combined rate of approximately 12.5% of sales for new U.S. franchise arrangements. Prior to 1994, the minimum fee generally was 12.0% for rent and service fees combined. Fees may vary depending on the type of site and the investment required on the part of the Company. Fees paid by franchisees outside of the U.S. vary according to local business conditions. Together with occupancy and operating rights, these fees are stipulated in franchise arrangements that generally have 20-year terms. Accordingly, these fees provide a stable, predictable revenue flow to the Company.

Revenues grow as restaurants are added and as sales build in existing restaurants. Menu price adjustments affect revenues and sales; however, different pricing structures, new products, promotions and product mix variations among markets make quantifying the impact of menu price adjustments for the System as a whole impractical.

Total revenues for 1995 and 1994 increased due to strong global operating results, positive comparable sales and an increase in the Company-operated restaurant base through expansion and changes in ownership.

In 1995, 60% of sales by Company-operated restaurants and 40% of revenues from franchised restaurants were outside of the U.S., compared with 56% and 37%, respectively, in 1994.

Restaurant margins

Company-operated restaurant margins were 19.2% of sales in 1995, compared with 19.8% in 1994 and 19.2% in 1993. As a percent of 1995 sales, food and paper as well as occupancy and other operating costs increased, while payroll costs remained relatively flat. As a percent of 1994 sales, food and paper as well as occupancy and other operating costs declined, while payroll costs increased.

Franchised margin dollars comprised about two thirds of the combined operating margins, the same as in the prior year. Franchised restaurant margins were 82.4% of applicable 1995 revenues, compared with 82.8% in 1994 and 83.1% in 1993. The decreases reflected a higher proportion of leased sites, resulting from accelerated expansion and satellite development, which have financing costs embedded in rent expense; whereas, financing costs for owned sites are reflected in interest expense.

Franchised margins include revenues and expenses associated with restaurants operating under business facilities lease arrangements. Under these arrangements the Company leases the businesses–including equipment–to franchisees who have options to purchase the businesses. While higher fees are charged under these arrangements, margins are generally lower because of equipment depreciation. When these purchase options are exercised, the resulting gains compensate the Company for the lower margins prior to exercise and are included in other operating (income) expense–net. At year-end 1995, 491 restaurants were operating under such arrangements, compared with 484 and 544 at year-end 1994 and 1993, respectively. The majority of these restaurants were operated outside of the U.S.

General, administrative and selling expenses

The 1995 and 1994 increases were primarily due to strategic global investment spending to support the Convenience, Value and Execution Strategies. The 1995 increase was also affected by stronger foreign currencies while the 1994 increase included a one-time, noncash $15 million charge related to the implementation of a new accounting rule regarding the timing of expensing advertising production costs. These expenses as a percent of Systemwide sales have remained relatively constant and were 4.1% in 1995, 4.2% in 1994 and 4.0% in 1993.

Corporate general, administrative and selling expenses which were not allocated to the geographic segments of the business were $48.2 million in 1995, $47.6 million in 1994 and $37.7 million in 1993.

Other operating (income) expense–net

This category is comprised of transactions that relate to franchising and the foodservice business such as gains on sales of restaurant businesses, equity in earnings of unconsolidated affiliates, and net gains or losses from property dispositions. The 1995 income increase occurred because of greater income from affiliates, principally Japan, partially offset by higher losses on property dispositions. The 1994 income increase reflected higher gains on sales of restaurant businesses and higher income from affiliates, offset in part by higher losses on property dispositions.

Gains on sales of restaurant businesses include gains from exercises of purchase options by franchisees operating under business facilities lease arrangements and from sales of Company-operated restaurants. As a franchisor, McDonald's purchases and sells businesses in transactions with franchisees and affiliates in an ongoing effort to achieve the optimal ownership mix in each market. These transactions and resulting gains are integral to franchising, and as such, are recorded in operating income.

Equity in earnings of unconsolidated affiliates is reported after interest expense and income taxes, except for U.S. partnerships which are reported before income taxes. The Company actively participates in, but does not control, these businesses.

Net gains or losses from property dispositions result from disposals of excess properties through closings, relocations and other transactions.

Operating income

The 1995 and 1994 increases reflected higher combined operating margin dollars and stronger foreign currencies, partially offset by higher general, administrative and selling expenses. In addition, 1994 benefited from higher other operating income.

Interest expense

The 1995 increase was due to higher average debt levels and stronger foreign currencies, partially offset by lower average interest rates. The 1994 decrease was primarily due to lower average interest rates, partially offset by higher average debt levels and stronger foreign currencies.

Nonoperating income (expense)–net

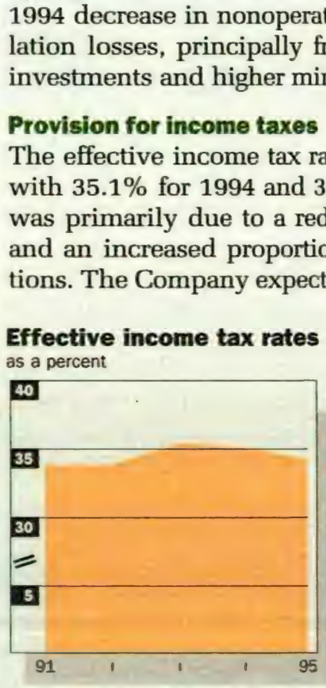
This category includes interest income, gains and losses related to investments and financings, as well as miscellaneous income and expense. The 1995 amount included $60 million of unrealized losses associated with the Company's investment in Discovery Zone common stock. These losses were primarily responsible for the decline in 1995 U.S. and Corporate income before provision for income taxes shown on page 42. Also contributing to the 1995 consolidated results were higher charges associated with minority interests, partially offset by higher interest income and lower translation losses. The 1994 decrease in nonoperating income reflected higher translation losses, principally from Mexico and Brazil, losses on investments and higher minority interest charges.

Provision for income taxes

The effective income tax rate was 34.2% for 1995, compared with 35.1% for 1994 and 35.4% for 1993. The 1995 decrease was primarily due to a reduction in U.S. state income taxes and an increased proportion of earnings from foreign operations. The Company expects its 1996 effective income tax rate to be in the range of 32.5% to 33.5%, due to lower taxes related to foreign operations.

Consolidated net deferred tax liabilities included tax assets, net of valuation allowance, of $308 million in 1995, and $233 million in 1994. Substantially all tax assets arose in the U.S. and other profitable markets, the majority of which is expected to be realized in future U.S. income tax returns.

Effective income tax rates
as a percent



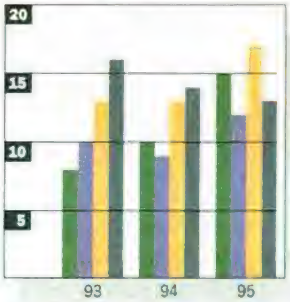
Net income and net income per common share

Net income and net income per common share increased 17% each in 1995 and 13% and 16%, respectively, in 1994. The spread between the 1994 percent increase in net income and net income per common share reflected the impact of share repurchase. In 1995, the impact of share repurchase was offset by the conversion of 11 million shares of Series B and C preferred stock into 8.7 million shares of common stock.

Impact of changing foreign currencies

While changing foreign currencies affect reported results, McDonald's lessens short-term cash exposures principally by purchasing goods and services in local currencies, financing in local currencies and hedging foreign currency-denominated cash flows. Strengthening foreign currencies had a positive impact on 1995 Systemwide sales, revenues, operating income and net income. Strengthening foreign currencies had a positive impact on 1994 Systemwide sales and operating income; however, the currency impact on interest expense and higher translation losses in Latin America more than offset this benefit, resulting in a reduction in net income. Further discussion of our management of changing foreign currencies is on pages 23 and 24 in the commentary on financings and total shareholders' equity.

Foreign currency impact on results
in percent increases



- Reported sales
- Adjusted sales
- Reported net income
- Adjusted net income

(Dollars in millions)	As reported		As adjusted*	
	1995			
Systemwide sales	**$29,914**	**15%**	**$29,057**	**12%**
Revenues	**9,795**	**18**	**9,531**	**15**
Operating income	**2,601**	**16**	**2,513**	**12**
Net income	**1,427**	**17**	**1,389**	**13**
	1994			
Systemwide sales	$25,987	10%	$25,715	9%
Revenues	8,321	12	8,268	12
Operating income	2,241	13	2,226	12
Net income	1,224	13	1,233	14

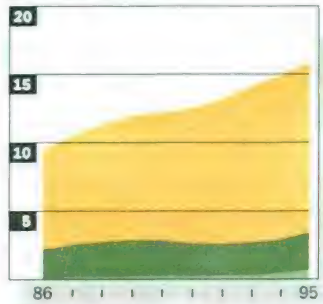
**If exchange rates remained constant year-over-year.*

U.S. operations

Sales

Restaurant expansion was primarily responsible for increasing sales in 1995. In addition, positive comparable sales were driven by the Company's continued emphasis on value and customer satisfaction in the form of Extra Value Meals, Happy Meals and the three-tier value program in 1995 and 1994. Ongoing programs such as Operation Mac Attack–our advertising campaign–and Fast, Accurate and Friendly–our initiative to improve customer satisfaction–and promotions such as Monopoly also aided 1995 sales, as did various promotions in 1994.

U.S. sales
in billions of dollars



- Operated by franchisees
- Operated by the Company
- Operated by affiliates

Advertisement from Austria addresses McDonald's commitment to environmental issues.

(In millions of dollars)	1995	1994	1993	Five years ago	Ten years ago
Operated by franchisees	**$12,474**	$11,965	$11,435	$ 9,379	$6,781
Operated by the Company	**2,725**	2,550	2,420	2,655	2,000
Operated by affiliates	**706**	426	331	218	62
U.S. sales	**$15,905**	$14,941	$14,186	$12,252	$8,843

Average sales by total U.S. restaurants open at least one year were $1,538,000 in 1995 and $1,577,000 in 1994.

Restaurants

There were 1,130 restaurants added in the U.S. in 1995 (597 traditional and 533 satellites) compared with 841 in 1994 (461 traditional and 380 satellites) and 306 (all traditional) five years ago. The U.S. accounted for just over one third of traditional restaurants added globally in 1995 and 1994, compared with about half five years ago. Of the worldwide satellite restaurant additions, about two thirds were in the U.S. in 1995 and 1994.

	1995	1994	1993	Five years ago	Ten years ago
Operated by franchisees	**8,180**	7,849	7,628	6,780	5,390
Operated by the Company	**1,634**	1,546	1,433	1,632	1,534
Operated by affiliates	**527**	349	222	164	48
Traditional restaurants	**10,341**	9,744	9,283	8,576	6,972
Satellite restaurants	**1,027**	494	114		
Total U.S. restaurants	**11,368**	10,238	9,397	8,576	6,972

About 84% of traditional U.S. restaurants were operated by franchisees and affiliates at year-end 1995 and 1994, compared with 81% five years ago. Approximately 80% of U.S. satellite restaurants were operated by franchisees and affiliates at year-end 1995.

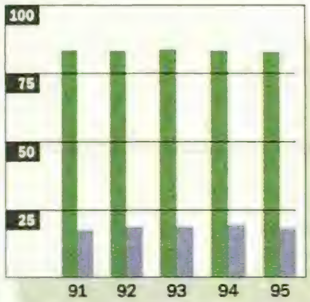
Operating results

(In millions of dollars)	1995	1994	1993	1992	1991
Revenues					
Sales by Company-operated restaurants	**$2,725**	$2,550	$2,420	$2,353	$2,410
Revenues from franchised restaurants	**1,749**	1,606	1,511	1,396	1,300
Total revenues	**4,474**	4,156	3,931	3,749	3,710
Operating costs and expenses					
Company-operated restaurants	**2,244**	2,066	1,977	1,920	2,000
Franchised restaurants	**304**	270	247	235	217
General, administrative and selling expenses*	**682**	628	569	507	499
Other operating (income) expense–net	**(8)**	(25)	(18)	(13)	(56)
Total operating costs and expenses*	**3,222**	2,939	2,775	2,649	2,660
U.S. operating income*	**$1,252**	$1,217	$1,156	$1,100	$1,050

U.S. revenues were positively impacted by expansion and positive comparable sales in 1995, 1994 and 1993, and reduced by the franchising of certain Company-operated restaurant businesses in 1992 and 1991.

**Operating income prior to 1995 has been restated to reflect a more meaningful allocation of general, administrative and selling expenses between the U.S. and international segments and includes an additional corporate category which is not allocated.*

U.S. restaurant margins
as a percent



U.S. Company-operated margins decreased $3 million in 1995, as lower Company-operated comparable sales and higher costs more than offset the positive impact of the growth in the number of Company-operated restaurants. These margins were 17.7% of sales in 1995, compared with 19.0% in 1994 and 18.3% in 1993. In 1995, the margin decline was driven by higher payroll costs as a percent of sales resulting from an increase in the average hourly wage rate and increased staffing levels designed to improve customer satisfaction. In 1995 and 1994, the margin benefited from cost reduction efforts and lower commodity costs.

U.S. franchised margins rose $109 million or 8% in 1995, driven by expansion and positive comparable sales. These margins were 82.6% of applicable revenues in 1995, compared with 83.2% in 1994 and 83.6% in 1993. Franchised margins as a percent of revenues declined in 1995 and 1994 as the growth in rent expense, resulting from an increase in the proportion of new leased sites, particularly satellite locations, outpaced the growth in franchised revenues.

With the current intensely competitive U.S. operating environment, we expect continuing pressure on Company-operated margins. However, while it is difficult to assess the potential effects of legislation and other factors that may affect the industry, the Company believes it can maintain annual operating margins as a percent of sales within the historical range of the past ten years by continuing to build sales and reduce costs.

U.S. operating income rose $35 million or 3% in 1995 and $61 million or 5% in 1994, and was 48% and 54% of consolidated operating income in 1995 and 1994, respectively. The 1995 and 1994 increases resulted primarily from higher combined operating margins, partially offset by higher general, administrative and selling expenses in the form of higher employee costs, and other expenditures to support our Convenience, Value and Execution Strategies. 1994 U.S. operating income was also impacted by a one-time, $12 million charge related to the implementation of a new accounting rule for advertising costs. Operating income included depreciation and amortization of $398 million in 1995, $366 million in 1994 and $348 million in 1993.

While the U.S. market remains intensely competitive, McDonald's is confident of continued growth in operating income over the long term through expansion, by controlling costs at the developmental, operational and administrative levels, and through a greater emphasis on value and customer satisfaction.

Assets and capital expenditures

U.S. assets increased $547 million or 8% in 1995 and $293 million or 5% in 1994. These increases were due to accelerated expansion and increased reinvestment in existing restaurants during 1995. At year-end 1995, 46% of consolidated

C'è un solo modo per mangiar fuori, restando in famiglia.

Venite a scoprirlo da McDonald's.

Mangiare fuori restando in famiglia. Perché se ogni occasione è buona per uscire a mangiare, ogni occasione è ideale per entrare in un ristorante allegro e sempre accogliente. Dove poter trovare una vasta scelta di menù, tutti con prodotti di primissima qualità. Dove essere accolti con il sorriso, perché ogni ospite è un ospite d'onore. Un ambiente, insomma, dove grandi e bambini possono passare insieme momenti di allegria. Se questo è il ristorante che cercate, siete venuti nel posto giusto. Siete benvenuti da McDonald's.

McDonald's™

Succede solo da McDonald's.

Advertisement from Italy. "There is only one place you can eat out, remaining at home. Come and discover it at McDonald's."

assets were located in the U.S., compared with 48% at year-end 1994.

(In millions of dollars)	**1995**	1994	1993	1992	1991
U.S. assets	**$7,040**	$6,493	$6,200	$5,995	$5,921
New restaurants	**$ 602**	$ 472	$ 332	$ 196	$ 214
Existing restaurants	**213**	125	122	125	151
Other properties	**104**	113	130	76	45
U.S. capital expenditures	**$ 919**	$ 710	$ 584	$ 397	$ 410

U.S. capital expenditures increased $209 million or 30% in 1995, and represented 44% of consolidated capital expenditures, compared with 47% five years ago. These amounts excluded initial investments made by franchisees in equipment, signs, seating and decor, as well as their ongoing reinvestment expenditures. New restaurant expenditures increased $130 million or 28%, primarily because of accelerated expansion.

Expenditures for existing restaurants were made to achieve higher levels of customer satisfaction and implement technology to improve service and food quality. In 1995, strategic reinvestment to build sales included $57 million for indoor Ronald's Playplaces and $37 million for rebuilding and relocating restaurants to adjust to changing demographics, traffic patterns and market opportunities. Over the past five years, $188 million has been invested to replace older buildings with new lower-cost, more efficient restaurants.

Other properties primarily included expenditures for office buildings and related furnishings.

Traditional restaurants

(In thousands of dollars)	**1995**	1994	1993	1992	1991
Land	**$ 348**	$ 317	$ 328	$ 361	$ 433
Building	**503**	483	482	515	608
Equipment	**300**	295	317	361	362
U.S. average development costs	**$1,151**	$1,095	$1,127	$1,237	$1,403

U.S. average development costs increased in 1995 primarily due to higher site development and preparation costs combined with investments for indoor Ronald's Playplaces in more than 25% of new traditional restaurants. Construction efficiencies and a further shift toward smaller, lower-cost building designs partially offset these increases.

Average development costs have decreased 26% from 1990 levels. Initiatives such as the Company's new joint venture to develop modular restaurant buildings serve as an example of our commitment to further reduce development costs through standardization, global sourcing and greater economies of scale. Our objective is to profitably expand into more locations, consistent with McDonald's goal of increasing market share with greater marketwide presence throughout the world.

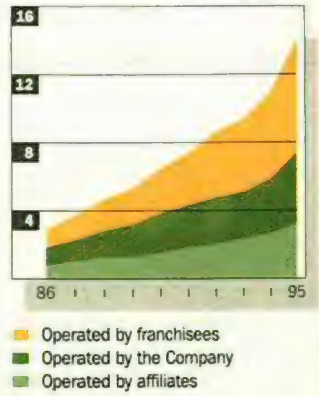
Because real estate ownership yields long-term benefits, including the ability to fix occupancy costs, the Company purchases new properties and acquires previously leased properties to the extent practical. The Company owned 68% of traditional U.S. sites at year-end 1995, compared with 69% five years ago. Most satellite restaurants are leased locations.

Operations outside of the U.S.

Sales

Sales outside of the U.S. rose 27% in 1995 and 18% in 1994 due to aggressive expansion, stronger foreign currencies and higher local currency sales at existing restaurants in all geographic segments except Canada. This strong sales growth in 1995 was achieved despite weak economies in several markets. In 1995, 47% of Systemwide sales were from markets located outside of the U.S. compared with 43% in 1994 and 35% five years ago.

Sales outside of the U.S.
in billions of dollars



(In millions of dollars)	**1995**	1994	1993	Five years ago	Ten years ago
Operated by franchisees	**$ 6,648**	$ 5,182	$4,321	$2,638	$ 831
Operated by the Company	**4,139**	3,242	2,737	2,364	770
Operated by affiliates	**3,222**	2,622	2,343	1,505	557
Sales outside of the U.S.	**$14,009**	$11,046	$9,401	$6,507	$2,158

In Asia/Pacific, Australia, Japan, New Zealand, Singapore and Taiwan reported strong 1995 sales increases driven by Extra Value Meal marketing campaigns and rapid store expansion.

In Europe, restaurant expansion continued to drive 1995 sales growth in Austria, England, France, Germany, the Netherlands and Spain.

In Latin America, due to the mid-1994 economic reforms, Brazil's tremendous sales growth continued into 1995. Results in Mexico continued to be impacted by the weak economy and further peso devaluation. We currently anticipate this trend to continue through at least 1996; however, we believe this market offers long-term potential.

Canada's 1995 sales growth was impacted by a slow economy and decreased consumer retail spending.

Average sales by total restaurants outside of the U.S. open at least one year were $2,422,000 in 1995 and $2,254,000 in 1994. This increase reflected stronger foreign currencies and higher local currency sales.

Restaurants

During the past five years, 56% of Systemwide and 64% of traditional restaurant additions have been outside of the U.S. Of the 1,007 traditional restaurants added outside of the U.S. in 1995, 42% were in the six largest markets–Australia, Canada, England, France, Germany and Japan–compared with 51% in 1994. Of the 293 satellite restaurants added in 1995, 86% were in the six largest markets compared with 74% in 1994.

In 1995, Japan added 313 total restaurants (109 traditional and 204 satellites), representing 24% of the total restaurants added outside of the U.S. Japan's profitable expansion was supported by significant reductions in average restaurant development costs achieved through standardization of building designs and utilization of smaller buildings.

In 1996 and 1997, more than half of total restaurant additions outside of the U.S. are anticipated to be in the six largest markets while new and emerging markets, such as the Middle East, China and Central Europe are expected to represent a growing proportion of expansion.

	1995	1994	1993	Five years ago	Ten years ago
Operated by franchisees	**3,060**	2,609	2,204	1,351	760
Operated by the Company	**1,879**	1,537	1,266	1,011	631
Operated by affiliates	**1,529**	1,315	1,240	865	538
Traditional restaurants	**6,468**	5,461	4,710	3,227	1,929
Satellite restaurants	**544**	251	56		
Total restaurants outside of the U.S.	**7,012**	5,712	4,766	3,227	1,929

At year-end 1995, 38% of Systemwide restaurants were outside of the U.S. compared with 36% in 1994 and 27% five years ago. Restaurants outside of the U.S. comprised 53% of traditional Company-operated restaurants and 27% of traditional franchised restaurants. About 29% of the traditional restaurants outside of the U.S. were Company-operated, 47% were franchised and 24% were operated by affiliates. Approximately 69% of traditional Company-operated restaurants were in England, Canada, Germany, Australia, Taiwan and Brazil. About 66% of traditional franchised restaurants were in Canada, Germany, Australia, France, England and the Netherlands. Restaurants operated by affiliates were principally located in Japan and other Asia/Pacific countries.

Approximately 81% of satellite restaurants outside of the U.S. were operated by franchisees and affiliates at year-end 1995. The vast majority were located in Japan, Canada and Brazil.

Operating results

(In millions of dollars)	1995	1994	1993	1992	1991
Revenues					
Sales by Company-operated restaurants	**$4,139**	$3,242	$2,737	$2,750	$2,499
Revenues from franchised restaurants	**1,182**	923	740	634	486
Total revenues	**5,321**	4,165	3,477	3,384	2,985
Operating costs and expenses					
Company-operated restaurants	**3,304**	2,579	2,188	2,206	2,029
Franchised restaurants	**211**	165	133	114	90
General, administrative and selling expenses*	**507**	408	335	320	269
Other operating (income) expense–net	**(98)**	(59)	(44)	(51)	(58)
Total operating costs and expenses*	**3,924**	3,093	2,612	2,589	2,330
Operating income outside of the U.S.*	**$1,397**	$1,072	$ 865	$ 795	$ 655

The growth in 1995 and 1994 revenue and operating income was driven by higher combined operating margin dollars resulting from expansion, positive comparable sales and stronger foreign currencies. The six largest markets accounted for about 75% of total operating income outside of the U.S. in 1995 and contributed 70% to operating income growth outside of the U.S. in 1995 compared with 53% in 1994.

Operating income prior to 1995 has been restated to reflect a more meaningful allocation of general, administrative and selling expenses between the U.S. and international segments and includes an additional corporate category which is not allocated.

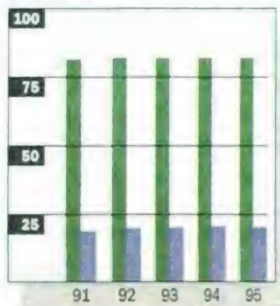
Operations outside of the U.S. continued to contribute greater amounts to consolidated results as shown below:

(As a percent of consolidated)	1995	1994	1993	1992	1991
Systemwide sales	**47%**	43%	40%	39%	37%
Total revenues	**54**	50	47	47	45
Operating income*	**54**	48	44	43	39
Operating margins					
Company-operated	**63**	58	55	56	53
Franchised	**40**	36	32	31	27
Systemwide restaurants	**38**	36	34	32	29
Assets	**53**	51	47	45	46

Company-operated margins increased $172 million or 26% in 1995. Company-operated margins accounted for 53% of the total operating income increase outside of the U.S. in 1995 and 55% of this increase in 1994. The six largest markets contributed about 68% to total Company-operated margin dollars outside of the U.S. in 1995 and accounted for 46% of the increase over 1994.

Company-operated margins declined as a percent of sales in 1995 to 20.2% compared with 20.5% in 1994 and 20.1% in 1993. The 1995 decline resulted from a strategic decision to invest incremental margin dollars into our Value Strategy, designed to increase market share and customer satisfaction, coupled with a comparison to extremely strong results in the second half of 1994, primarily due to Brazil. The Company believes it can maintain these annual operating margins as a percent of sales within the historical range of the past ten years by continuing to build sales and reduce costs.

Restaurant margins outside of the U.S.
as a percent



Franchised margins as a percent of revenues
Company-operated margins as a percent of sales

Franchised margins grew $213 million or 28% in 1995. These margins were 82.1% of applicable revenues in 1995 and 1994 compared with 82.0% in 1993. Franchised margin dollar growth was driven by expansion and positive comparable sales.

The 1995 and 1994 increases in general, administrative and selling expenses were caused principally by additional employee costs associated with rapid expansion in new and emerging markets, government-mandated payroll and social cost increases and stronger foreign currencies.

Other operating income increased in 1995 primarily due to higher income from affiliates, principally Japan. Japan's increased income resulted from expansion as well as an aggressive value strategy emphasizing Extra Value Meals which resulted in strong comparable sales.

The Europe/Africa/Middle East segment accounted for 61% of revenues and 60% of operating income outside of the U.S. in 1995, growing $650 and $195 million, respectively in 1995 and $369 and $113 million, respectively, in 1994. Germany, England and France accounted for 83% of this seg-

ment's operating income in 1995, compared with 82% in 1994. Stronger currencies contributed about one third of this segment's operating income increase over 1994. This benefit diminished as the U.S. Dollar strengthened later in 1995.

Asia/Pacific revenues grew $280 and $236 million and operating income increased $76 and $53 million in 1995 and 1994, respectively. Australia, Japan, Hong Kong and Taiwan contributed 86% of this segment's operating income in 1995. Japan's profits increased significantly compared to 1994 due to an aggressive value campaign and accelerated expansion. Australia experienced strong sales increases in 1995 from significant restaurant expansion and higher sales at existing restaurants through a continued emphasis on value. The Company's share of Taiwan's 1995 and 1994 revenues increased as a result of a change in ownership from a joint venture to a wholly-owned subsidiary in May 1994. The 1994 increases in revenues and operating income were also attributable to expansion and developing economies in many markets, with the exception of Japan, which suffered from a weak economy. Strong currencies contributed to this segment's 1995 operating income increase. As the U.S. Dollar strengthened against the Yen in the later part of the year, the currency benefit significantly decreased.

Latin American revenues grew $223 and $95 million and operating income increased $57 and $35 million in 1995 and 1994, respectively. Brazil continued to be primarily responsible for the Latin American operating income increase due to expansion as well as significant sales increases from existing restaurants which began in mid-1994 due to economic reforms. Brazil's restaurant base grew by 25% in 1995 and 27% in 1994. Mexico continued to be negatively impacted by the economy and currency devaluation.

Canadian revenues increased $2 million in 1995 and decreased $12 million in 1994, while operating income decreased $2 million in 1995 and increased $6 million in 1994. The 1995 results reflect lower sales at existing restaurants, caused by the slow economy, partially offset by new restaurant growth.

Assets and capital expenditures

Assets outside of the U.S. rose $1.3 billion or 19% in 1995 due to expansion and stronger foreign currencies. At year-end 1995, about 53% of consolidated assets were located outside of the U.S.; 57% of these assets were located in England, Germany, France, Australia and Canada.

(In millions of dollars)	**1995**	1994	1993	1992	1991
Assets outside of the U.S.	**$8,206**	$6,909	$5,650	$5,271	$5,195
New restaurants	**$ 941**	$ 723	$ 609	$ 603	$ 612
Existing restaurants	**142**	87	94	91	94
Other properties	**55**	34	55	47	39
Capital expenditures outside of the U.S.	**$1,138**	$ 844	$ 758	$ 741	$ 745

In the past five years, $4.2 billion has been invested by the Company outside of the U.S. Capital expenditures outside of the U.S. rose $294 million or 35% in 1995 reflecting growth in all geographic segments. Approximately 66% of 1995 capital expenditures outside of the U.S. were invested in Europe–primarily in Germany, France and England.

Overall average development costs for new restaurants for the five largest, majority-owned markets–Australia, Canada, England, France and Germany–were nearly double the U.S. average. These investments accommodate higher sales volumes and transaction counts. Since 1990, average development costs have decreased due to construction and design efficiencies, standardization, global sourcing and changes in the mix of openings.

Expenditures for existing restaurants included dining room remodels to achieve increased levels of customer satisfaction and technology upgrades to improve service and food quality. The majority of these expenditures were in Europe. Expenditures for other properties were principally for office facilities.

As in the U.S., the Company emphasizes restaurant property ownership outside of the U.S; however, various laws and regulations make property acquisition and ownership much more difficult. Property is purchased when legally and economically feasible; otherwise, long-term leases are an alternative. In addition, certain markets have laws and customs that offer stronger tenancy rights than are available in the U.S. The Company owned 34% of traditional sites outside of the U.S. at year-end 1995, compared with 36% in 1994 and 35% five years ago.

Capital expenditures made by affiliates–which were not included in consolidated amounts–were $258 million in 1995, compared with $203 million in 1994. The majority of the 1995 expenditures were for development in Japan, Sweden, Argentina, Russia and Singapore.

Financial position

Total assets and capital expenditures

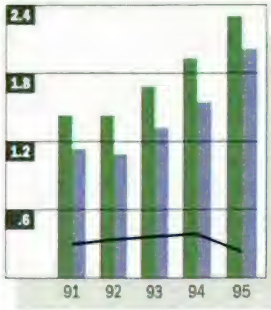
Total assets grew approximately $1.8 billion or 13% in 1995; net property and equipment represented 83% of total assets and rose $1.5 billion. Capital expenditures increased $503 million or 32%, reflecting increased expansion, reinvestment in existing restaurants and stronger foreign currencies.

Accounting for the impairment of long-lived assets

In the first quarter of 1996, the Company will adopt Statement of Financial Accounting Standard No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of.* This statement requires impairment losses be recognized for long-lived assets, whether these assets are held for disposal or continue to be used in operations, when indicators of impairment are present and the fair value of assets are estimated to be less than carrying amounts. After reviewing its assets for impairment, the Company anticipates a pre-tax charge to operating income of approximately $16 million related to restaurant sites in Mexico on adoption of this new accounting standard.

Cash provided by operations

Cash flow and capital expenditures
in billions of dollars



Cash provided by operations increased $370 million or 19% in 1995 and $246 million or 15% in 1994. Together with other sources of cash such as borrowings, cash provided by operations was used principally for capital expenditures, debt repayments, share repurchase and dividends. For the fifth consecutive year, cash provided by operations exceeded capital expenditures.

While cash generated is significant relative to cash required, the Company also has the ability to meet any short-term needs through commercial paper borrowings and line of credit agreements. Accordingly, a relatively low current ratio has been purposefully maintained; it was .53 at year-end 1995.

The Company believes that cash flow measures are meaningful indicators of growth and financial strength, when evaluated in the context of absolute dollars, uses and consistency. Cash provided by operations is expected to cover capital expenditures over the next several years, even as expansion continues to accelerate.

(Dollars in millions)	**1995**	1994	1993	1992	1991
Cash provided by operations	**$2,296**	$1,926	$1,680	$1,426	$1,423
Cash provided by operations less capital expenditures	**$ 233**	$ 388	$ 363	$ 339	$ 294
Cash provided by operations as a percent of capital expenditures	**111**	125	128	131	126
Cash provided by operations as a percent of average total debt	**49**	48	44	33	31

Financings

The Company strives to minimize interest expense and the impact of changing foreign currencies while maintaining the capacity to meet increasing growth requirements. To accomplish these objectives, McDonald's generally finances long-term assets with long-term debt in the currencies in which the assets are denominated, while remaining flexible to take advantage of changing foreign currencies and interest rates.

Over the years, major capital markets and various techniques have been utilized to meet financing requirements and reduce interest expense. Currency exchange agreements have been employed in conjunction with borrowings to obtain desired currencies at attractive rates. Interest-rate exchange agreements have been used to effectively convert fixed-rate to floating-rate debt, or vice versa. Foreign currency-denominated debt has been used to lessen the impact of changing foreign currencies on net income and shareholders' equity by designating these borrowings as hedges of intercompany financings or the Company's long-term investments in its foreign subsidiaries and affiliates. Total foreign currency-denominated debt, including the effects of currency exchange agreements, was $4.3 and $4.0 billion at year-end 1995 and 1994, respectively.

(As a percent)	**1995**	1994	1993	1992	1991
Fixed-rate debt as a percent of total debt	**67%**	64%	77%	75%	78%
Weighted average annual interest rate	**7.9**	8.4	9.1	9.3	9.4
Foreign currency-denominated debt as a percent of total debt	**89**	92	86	72	61
Total debt as a percent of total capitalization (total debt and total shareholders' equity)	**38**	39	37	40	49

The Company manages its debt portfolio to respond to changes in interest rates and foreign currencies and accordingly, periodically retires, redeems, and repurchases debt; terminates exchange agreements; and uses derivatives. The Company does not use derivatives with a level of complexity or with a risk higher than the exposures to be hedged and does not hold or issue financial instruments for trading purposes; all exchange agreements are over-the-counter instruments.

While changing foreign currencies affect reported results, the Company actively hedges selected foreign currencies, primarily to minimize the cash exposure of royalty and other payments received in the U.S. in local currencies. McDonald's restaurants also primarily purchase goods and services in local currencies resulting in natural hedges and McDonald's typically finances in local currencies creating economic hedges. The Company's exposure is diversified within a broad basket of currencies. At year-end 1995, assets in hyperinflationary markets and in Mexico were principally financed in U.S. Dollars. The Company's largest net asset exposures (defined as foreign currency assets less foreign currency liabilities) by foreign currency were as follows:

(In millions of U.S. Dollars)	December 31, **1995**	1994
Canadian Dollars	**$361**	$311
British Pounds Sterling	**356**	330
Australian Dollars	**240**	212
French Francs	**198**	99
Hong Kong Dollars	**115**	52
Netherland Guilders	**107**	15
Austrian Schillings	**106**	84

Moody's and Standard & Poor's have rated McDonald's debt Aa2 and AA, respectively, since 1982. Duff & Phelps began rating the debt in 1990, and currently rates it AA+. At the present time, these strong ratings are important to McDonald's in the context of our global development plans. The Company has not experienced, nor does it expect to experience, difficulty in obtaining financing or in refinancing existing debt. At year-end 1995, the Company and its subsidiaries had $1.3 billion available under line of credit agreements and $785 million under previously filed shelf registrations available for future debt issuance.

Although McDonald's prefers to own real estate, leases are an alternative financing method. As in the past, some new properties will be leased. Such leases frequently include renewal and/or purchase options. In the past five years, the Company and its affiliates have leased properties related to 40% of U.S. traditional restaurant openings and 66% of traditional restaurant openings outside of the U.S.

Since 1990, the Company has improved its balance sheet by reducing leverage while simultaneously increasing expansion and repurchasing shares.

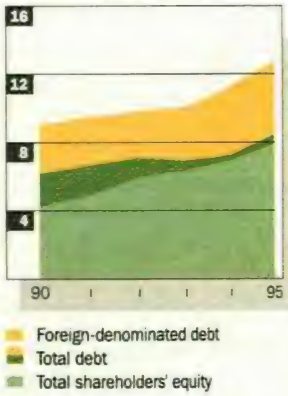
Total shareholders' equity

Total shareholders' equity rose $976 million or 14% in 1995, representing 51% of total assets at year-end. Stronger foreign currencies increased shareholders' equity by $28 million in 1995.

One technique used to enhance common shareholder value is share repurchase using excess cash flow or debt capacity, while maintaining a strong equity base for future expansion. McDonald's has repurchased $2.8 billion of its common stock, representing 148 million shares, over the past 10 years. At year-end 1995, the market value of shares recorded as common stock in treasury was $6.3 billion, compared to the cost of $2.5 billion.

In January 1996, the Company announced plans to repurchase $2.2 billion of its common stock within the next three years, including $200 million remaining under the three-year, $1 billion program announced in January 1994. In 1993, the Company completed a $700 million common share repurchase program begun in 1992.

Total capitalization
in billions of dollars



Returns

Return on average assets is computed using operating income. Net income less preferred stock dividends (net of tax in 1995, 1994, 1993 and 1992) is used to calculate return on average common equity. Month-end balances are used to compute both average assets and average common equity.

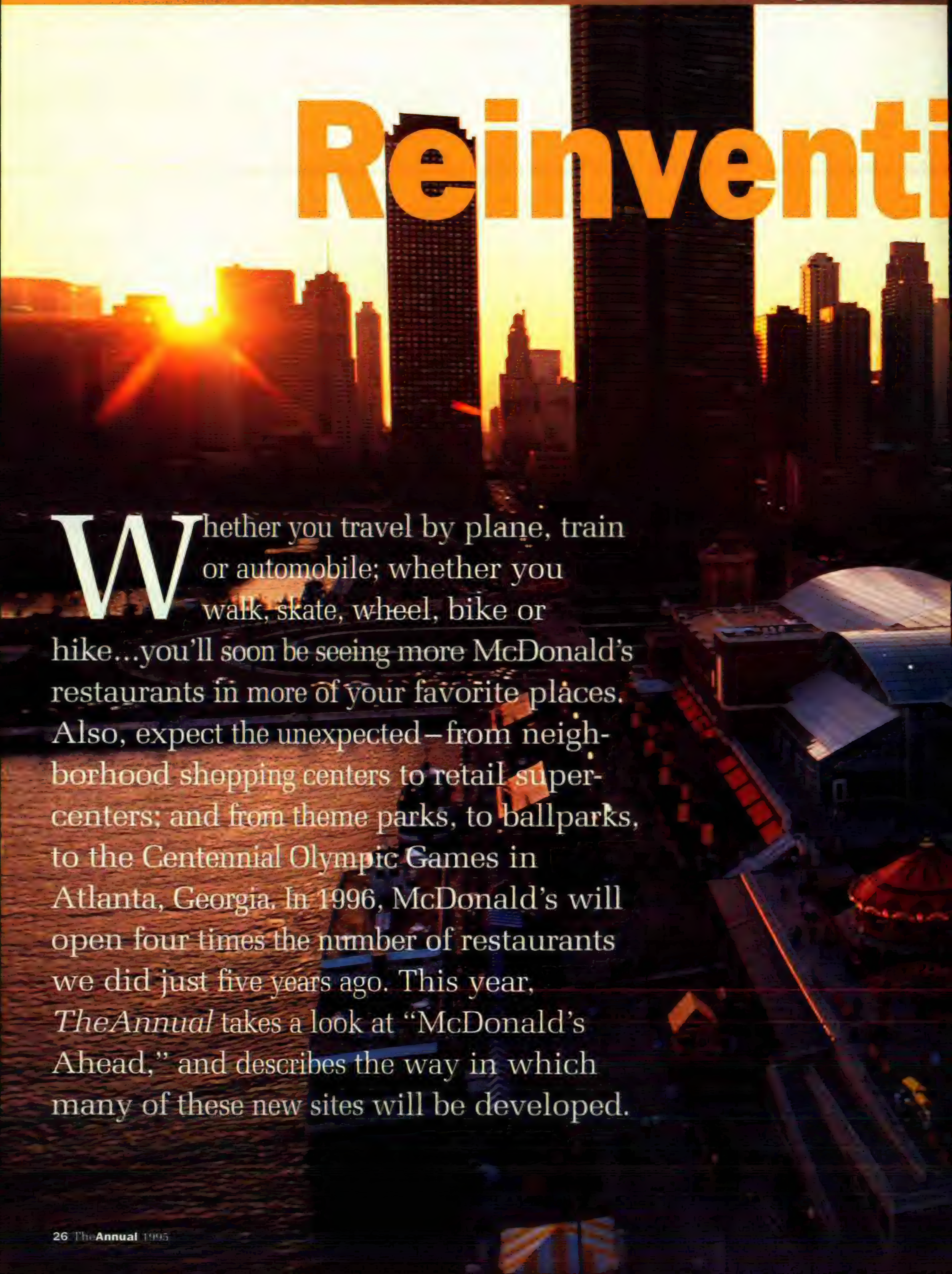
(As a percent)	**1995**	1994	1993	1992	1991
Return on average assets	**17.9%**	17.6%	17.0%	16.4%	15.7%
Return on average common equity	**19.9**	19.4	19.0	18.2	19.1

The improvements in return on average assets since 1991 reflected better global operating results and a slower rate of asset growth. The 1995, 1994 and 1993 improvements in return on average common equity reflected higher levels of share repurchase, whereas the decline in 1992 resulted from a lower level of share repurchase as excess cash flow was used to reduce debt.

Effects of changing prices–inflation

McDonald's has demonstrated an ability to manage inflationary cost increases effectively. Rapid inventory turnover, ability to adjust prices, cost controls and substantial property holdings–many of which are at fixed costs and partially financed by debt made cheaper by inflation–have enabled McDonald's to mitigate the effects of inflation. In hyperinflationary markets, menu board prices typically are adjusted to keep pace, thereby mitigating the effect on reported results.

The ancient craft of hamburger making has made a big impression in Indonesia.
At McDonald's, we've been handing down our unique recipes for hamburgers, french fries, fried chicken, even sundaes, for generations.
You'll be glad to know that tradition is alive and well in Indonesia, where the great taste of McDonald's is available throughout Jakarta, as well as in Bandung, Semarang, Jogjakarta, Surabaya, Malang and Bali.
So while you are enjoying the exotic art and culture of beautiful Indonesia, remember that the great taste of home is never very far away.
GOOD TIME. GREAT TASTE.™
McDonald's
Family Restaurant
Advertisement from Indonesia.



Reinventi

Whether you travel by plane, train or automobile; whether you walk, skate, wheel, bike or hike...you'll soon be seeing more McDonald's restaurants in more of your favorite places. Also, expect the unexpected – from neighborhood shopping centers to retail supercenters; and from theme parks, to ballparks, to the Centennial Olympic Games in Atlanta, Georgia. In 1996, McDonald's will open four times the number of restaurants we did just five years ago. This year, *TheAnnual* takes a look at "McDonald's Ahead," and describes the way in which many of these new sites will be developed.

n more places where people work, shop, live, play, visit, learn and travel.

ng the wheel

A PIER WITHOUT PEER. The renovation of Chicago's Navy Pier provides a day of fun, entertainment and good food to residents and guests of the city. And McDonald's is there – from sponsorship of the landmark Ferris Wheel, to a 300-seat restaurant, you'll enjoy a McDonald's experience with a view you won't soon forget.

Chicago's Municipal Pier opened in 1916, to combine the business of shipping with the pleasure of public entertainment. In 1927, it was renamed Navy Pier as a tribute to Navy personnel who served in World War I. The Pier was closed to daily general public use in 1941, and was given a grand re-opening in July 1995.

below. GROWTH IS "ON TRACK" IN JAPAN. McDonald's opened just 89 restaurants in Japan in 1991. In 1995, 313 were opened–due to standardized designs, sourcing efficiencies and alliance partnerships driving Japan's profitable growth strategy. This restaurant in Tokyo's J.R. Todaeki train station meets the needs of the unusually large number of train commuters throughout Japan.

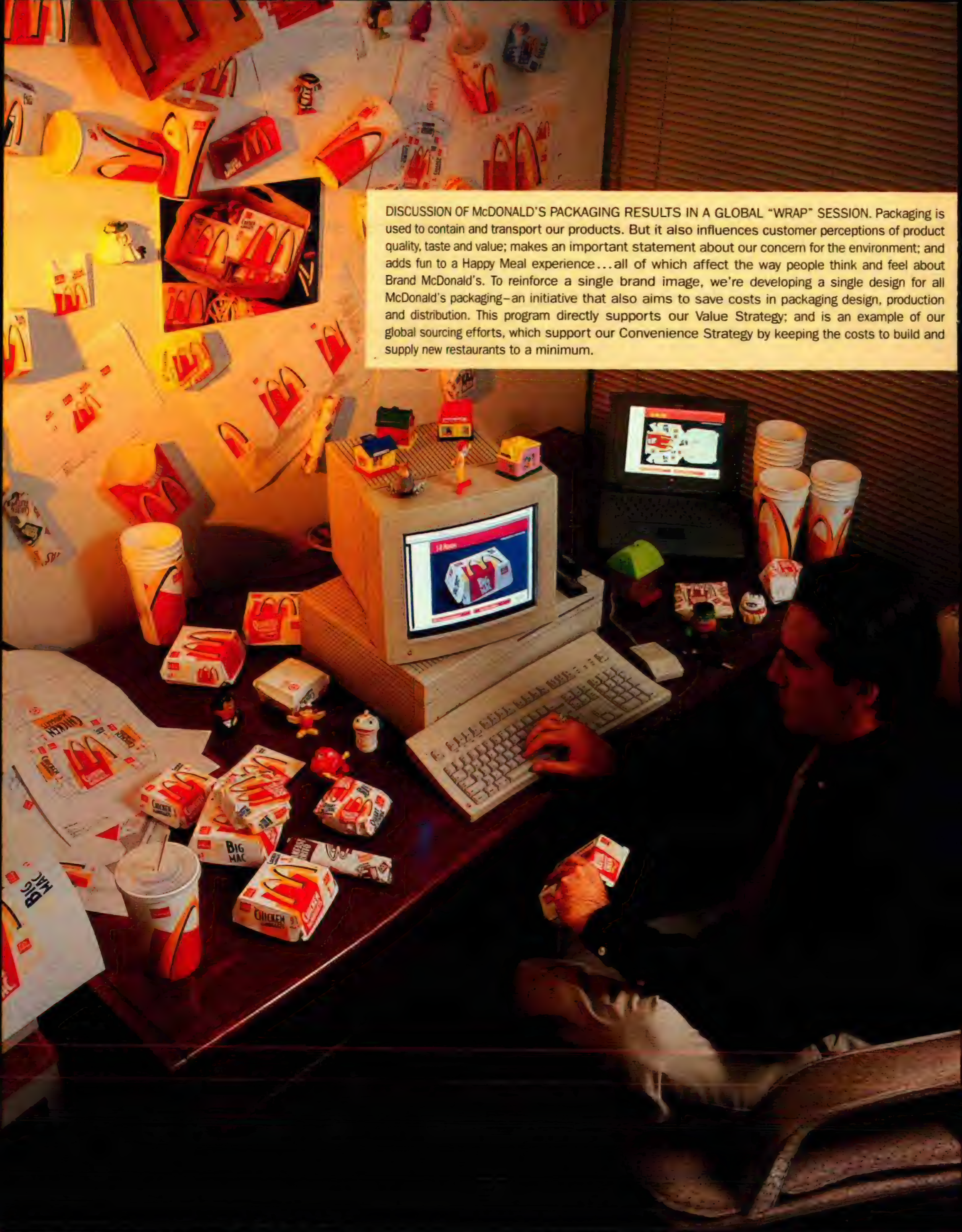
bottom. "WAL★MART. JOUR APRÉS JOUR, ÇA COUTE MOINS CHER. TOUJOURS!" In Quebec, Canada, that means "Wal★Mart. Where every day costs less. Always." Another "always" is the commitment of Wal★Mart and McDonald's to provide customers with the best in value, friendly service and customer satisfaction. Today, nearly 800 McDonald's operate in Wal★Mart retail stores in the U.S., Canada, Mexico and Puerto Rico–all part of our strategy to create alliances with retail leaders to bring greater convenience to the McDonald's customer experience.

left and below. RUNNING ON EMPTY? In a mobile and global society always looking for greater convenience, the alliance between McDonald's and major oil partners is a timely solution to fill either an empty tank or an empty stomach. In the U.S., our first alliance agreements were signed in 1995 with Chevron (July) and Amoco (October)–each the premier brand in its marketing area, and together, they form the cornerstone of our oil initiative in the U.S. Co-branded sites are also being developed globally, and include this Texaco/McDonald's in Edinburgh, Scotland. Co-branding lowers development costs and provides us with access to more sites and more customers.

Taking on a new look, to bring more McDonald's to more customers.

above. CORNERING THE MARKET. That's just the idea as McDonald's Express restaurants open in urban residential areas, inside large retailers and in food courts. McDonald's Express are satellite restaurants, and typically open in spaces that never would have been considered in the past. These restaurants, like this one in Chicago IL, have a simplified menu and lower sales volume than a traditional McDonald's, but still offer 100 percent McDonald's quality, service, cleanliness and value . . . and 110 percent convenience.

right. IN MULESHOE TX, THEY'RE ASKING, "IS THIS A McDONALD'S RESTAURANT WITH A PLAYPLACE ATTACHED...OR A McDONALD'S PLAYPLACE WITH A RESTAURANT ATTACHED? It really depends on your perspective–whether you're six-foot-three or three-foot-six. In either case, we see it as one of the important drivers of our Convenience Strategy. Standardized restaurant designs lowered the development cost of a traditional U.S. restaurant by 26 percent in just the last five years. And a standard design for our indoor Playplaces, along with mass-purchasing of play equipment, has helped us open more than 800 such play sites–with more to come.



DISCUSSION OF McDONALD'S PACKAGING RESULTS IN A GLOBAL "WRAP" SESSION. Packaging is used to contain and transport our products. But it also influences customer perceptions of product quality, taste and value; makes an important statement about our concern for the environment; and adds fun to a Happy Meal experience...all of which affect the way people think and feel about Brand McDonald's. To reinforce a single brand image, we're developing a single design for all McDonald's packaging–an initiative that also aims to save costs in packaging design, production and distribution. This program directly supports our Value Strategy; and is an example of our global sourcing efforts, which support our Convenience Strategy by keeping the costs to build and supply new restaurants to a minimum.

above. TURN LEFT AT *WHAT* EMPTY LOT?? Just 9 hours ago, that *was* an empty lot . . . but that was before McDonald's in England took the lead in modular building design and construction. Modular restaurants are now used in other countries, and are just one part of McDonald's low-cost approach to the development process. Other key elements include standardized building designs for contracting, purchasing and construction efficiencies and right sizing, enabling us to capture more visits in every market by creating multiple points of convenience. Modular buildings can also be dismantled and moved to a new location to improve restaurant profitability and add to customer convenience.

right. TRAINING FOR THESE SOUTH AFRICANS MEANS SAILING AN OCEAN. One challenge of rapid expansion is developing a consistent supply of quality restaurant management. Our South African managers completed their training in New Zealand, and opened their first McDonald's in November 1995. Standing in front of the hand-carved archway of the Waipapa Marae at Auckland University are (from the left) Tracy Joy Conradie, Leon Pather, Sanjay Reddy and Zanele Mhlekude. The Marae is a traditional meeting place with cultural and spiritual significance to the Maori's, the native people of New Zealand.

rowth are our sourcing efficiencies, low-cost development and people.

Getting At The Numbers...

Bringing it down to the bottom line, results include higher sales, earnings and market share.

It all comes down to performance in the marketplace. All the planning and talk about accelerated development may *sound* great...but what's the effect on sales, earnings and market share growth?

Harry Segalas, a principal at W.P. Stewart & Co., Inc.–a New York based money management firm focused on high quality growth companies–likes what he sees. "At the end of the day, convenience creates business and drives consumption opportunities." Considering 1992 as his base, Harry notes that accelerated unit growth has led to even faster gains in Systemwide sales, which he considers as the best proxy of demand. Importantly, these two measures have also led to a further step-up in the pace of earnings growth. "Even after investment costs, there's been an increase in free cash flow."


Harry Segalas

Harry also commented on how much room might remain for continued expansion. "You have to consider the U.S. company and international on two separate levels. Continued success in U.S. unit growth will depend on how innovative you are in terms of pursuing the marketplace." Here, he cites the addition of restaurants in airports and on interstates; the Company's recent alliances with Wal★Mart, other giant retailers and oil companies; and McDonald's success in lowering development costs. Harry sees the global aspect of the McDonald's brand as "underestimated and underappreciated." He says, "accelerating expansion overseas will only widen McDonald's lead and extend the duration of the Company's growth." In markets outside of the U.S., unit growth "is just not an issue. No other brand is even a close second to McDonald's."

While Harry offers a macro view of McDonald's, he also recognizes the importance of viewing the business from the perspective of the individual restaurants. Tom Wolf is a McDonald's franchisee with 15 restaurants in the Huntington, West Virginia and Ashland, Kentucky markets. Tom opened his first McDonald's in 1974, had eight restaurants by the end of 1993, and opened seven more in just the last two years, including two McDonald's in Wal★Mart locations and a McDonald's Express oil alliance; and added indoor Playplaces to two existing restaurants.


Tom Wolf

Has all this investment in growth made a difference? "I wouldn't change a thing," Tom says. "Sales are up. I'm serving more customers, my market share is up and I'm confident about the future." Customers say that the Playplaces and Wal★Mart units are "a great idea." "The business is out there," says Tom. "We've got to take these opportunities now, or leave them for someone else to take."

Tom likes McDonald's new aggressiveness, and says to the Company, "Just keep giving me the weapons...I'll fight the fight."

Additional Measures

	3 RESTAURANTS	7 RESTAURANTS	INCREASE	
Total market sales	$4,800,000	$8,400,000	$3,600,000	75%
Market share	6%	10%	4 points	67%
Cash flow				
–Real estate	$ 490,000	$ 770,000	$ 280,000	57%
–Operating	$ 640,000	$ 970,000	$ 330,000	52%

Traditional Measures

	3 RESTAURANTS	7 RESTAURANTS
Average sales	$1,600,000	$1,200,000
Comparable sales	2.0%	(3.8%)
Return on investment		
–Real estate	19.5%	19.4%
–Operating	37.0%	32.4%

CONSIDER THIS . . .

As we begin to look at our business differently, we are also exploring additional ways to measure our success. Here is an example of the type of measures we expect to be looking at in the future...

Consider a hypothetical market with three traditional McDonald's restaurants, and a 6 percent share of the eating-out market. Over an 18-month period, we add a Playplace to one existing restaurant and add four new sites: a low-cost traditional restaurant, a co-branded oil alliance, and two satellite restaurants–one in a Wal★Mart and another in an urban residential neighborhood.

After operating all these restaurants for one year, let's look at how we've done. Using only the *traditional* measures of average sales, comparable sales and returns, the results might look disappointing. Now look at the same example using the *additional* measures of total market sales, market share and cash flow, and the impact of our Convenience Strategy should be obvious–to our employees, franchisees and suppliers...to our shareholders...and most importantly, to our customers.

A version of this ad appeared in professional journals in the United States in 1995.

sharpening **your pencil**

Just as there are additional measures for marking McDonald's growth, there's also a new "scorecard" for measuring customer satisfaction–one that gives customers a more direct voice to restaurant management.

Customer satisfaction is the only certain and sustainable strategy to increase market share. What isn't so certain is *fulfilling* that strategy. To increase McDonald's ability to satisfy more customers more frequently, we've added a new tool to our customer satisfaction measurement system–a restaurant-level survey that invites customers to share their comments and concerns directly with restaurant management.

At the McDonald's restaurants owned and operated by Art Phillips in the Kansas City region, survey results led to a "Counter Forward" management focus, in which all action moves towards the customer. When more cups or ice are needed, the counter crew doesn't go to the back to get them–they're brought *forward* by other kitchen staff; and the grill crew goes into the dining room to ask for customer comments on the Big Mac they just prepared. At Butch Tysdale's Western Nebraska restaurants, drive-thru speed and accuracy improved when crew competitions and a traveling trophy recognized exceptional performance.

Franchisee Wayne Harris in Madison, Wisconsin likes the fact that problems can now be isolated at individual restaurants. "This kind of customer feedback lets us find and fix problems quicker, and helps my management team focus on the business from the customer side of the counter."

An equally important part of this survey includes measuring *employee* satisfaction–an essential part of the measurement process, as having satisfied employees is a prerequisite to having satisfied customers.

Employee satisfaction is measured at the restaurant level at the same time the customer survey is taken, and employees are encouraged to write individual comments and suggestions.

At Lisa Essig's McDonald's in Liberty, Missouri, employee input led to the creation of a Crew Advisory Council, that gives a greater voice to crew issues, and provides a forum for restaurant management and crew to discuss ideas that could increase customer satisfaction. And Butch Tysdale's crew now gets a monthly newsletter acknowledging employee achievements at school, at work and in the community; and reinforcing restaurant customer priorities.

This employee perspective adds to each restaurant's business plan, and helps your McDonald's restaurant provide the kind of workplace environment that encourages more employees to satisfy more customers more often.

Currently in use in more than 11,000 restaurants in North America, our restaurant-level Customer Satisfaction Measurement Survey gathers customer input on McDonald's food, service, accuracy, employees, cleanliness and value, as well as customers' overall satisfaction with their current visit. Twice each year, restaurants distribute 1,500 surveys over a four-day, weekday/weekend period. Customers who complete the survey receive a free menu item as a "thank you" for their participation.

Between surveys, restaurants use trend measurement cards to evaluate their progress from month-to-month. These cards focus on each restaurant's three highest customer satisfaction priorities.

In markets outside of North America, restaurant comment cards are currently in use to achieve similar business objectives.

SURVEY CRITERIA

FOOD: Appearance? Taste? Temperature?
SERVICE: Fast?
ACCURACY: Right items? Right sizes? Condiments?
EMPLOYEES: Friendly? Helpful?
CLEANLINESS: Lobby? Dining room? Parking lot? Restrooms?
VALUE: Satisfied? Competitive?

RETIREMENT IS NICE AND SO'S THE FREE TIME. BUT BOY IS THERE EVER A LOT OF IT AND YOU'RE NOT EXACTLY THE KIND OF GUY TO

SIT AROUND WITH A PAIR OF CHOPSTICKS BUILDING A SHIP IN A BOTTLE OR HANG AROUND THE MALL AND LISTEN TO CHARLIE WHINE ABOUT THE WEATHER, YOU'D RATHER BE PRODUCTIVE AND BE AROUND NICE, FRIENDLY ENERGETIC PEOPLE AND MAKE SOME EXTRA MONEY IN SOME OF THAT FREE TIME. ANYTHING TO GET AWAY FROM CHARLIE AND THAT WHINING.

McDonald's

McDonald's® is now accepting applications for employment.

WORK WHEN YOU WANT TO WORK ♦ MAKE EXTRA MONEY ♦ WORK WITH NICE PEOPLE

McDonald's is an Equal Opportunity Employer Committed to a Diverse Work Force

Management's Report

Management is responsible for the preparation, integrity and fair presentation of the consolidated financial statements and Financial Comments appearing in this annual report. The financial statements were prepared in accordance with generally accepted accounting principles and include certain amounts based on management's judgment and best estimates. Other financial information presented in the annual report is consistent with the financial statements.

The Company maintains a system of internal control over financial reporting including safeguarding of assets against unauthorized acquisition, use or disposition, which is designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation of reliable published financial statements and such asset safeguarding. The system includes a documented organizational structure and appropriate division of responsibilities; established policies and procedures which are communicated throughout the Company; careful selection, training, and development of our people; and utilization of an internal audit program. Policies and procedures prescribe that the Company and all employees are to maintain the highest ethical standards and that business practices throughout the world are to be conducted in a manner which is above reproach.

There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation and safeguarding of assets. Furthermore, the effectiveness of an internal control system can change with circumstances. The Company believes that at December 31, 1995, it maintained an effective system of internal control over financial reporting and safeguarding of assets against unauthorized acquisition, use or disposition.

The consolidated financial statements have been audited by independent auditors, Ernst & Young LLP, who were given unrestricted access to all financial records and related data. The audit report of Ernst & Young LLP is presented below.

The Board of Directors, operating through its Audit Committee composed entirely of independent Directors, provides oversight to the financial reporting process. Ernst & Young LLP has independent access to the Audit Committee and periodically meets with the Committee to discuss accounting, auditing and financial reporting matters.

McDONALD'S CORPORATION

Oak Brook, Illinois
January 25, 1996

Report of Independent Auditors

The Board of Directors and Shareholders
McDonald's Corporation
Oak Brook, Illinois

We have audited the accompanying consolidated balance sheet of McDonald's Corporation as of December 31, 1995 and 1994, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1995. These financial statements are the responsibility of McDonald's Corporation management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of McDonald's Corporation at December 31, 1995 and 1994, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1995, in conformity with generally accepted accounting principles.

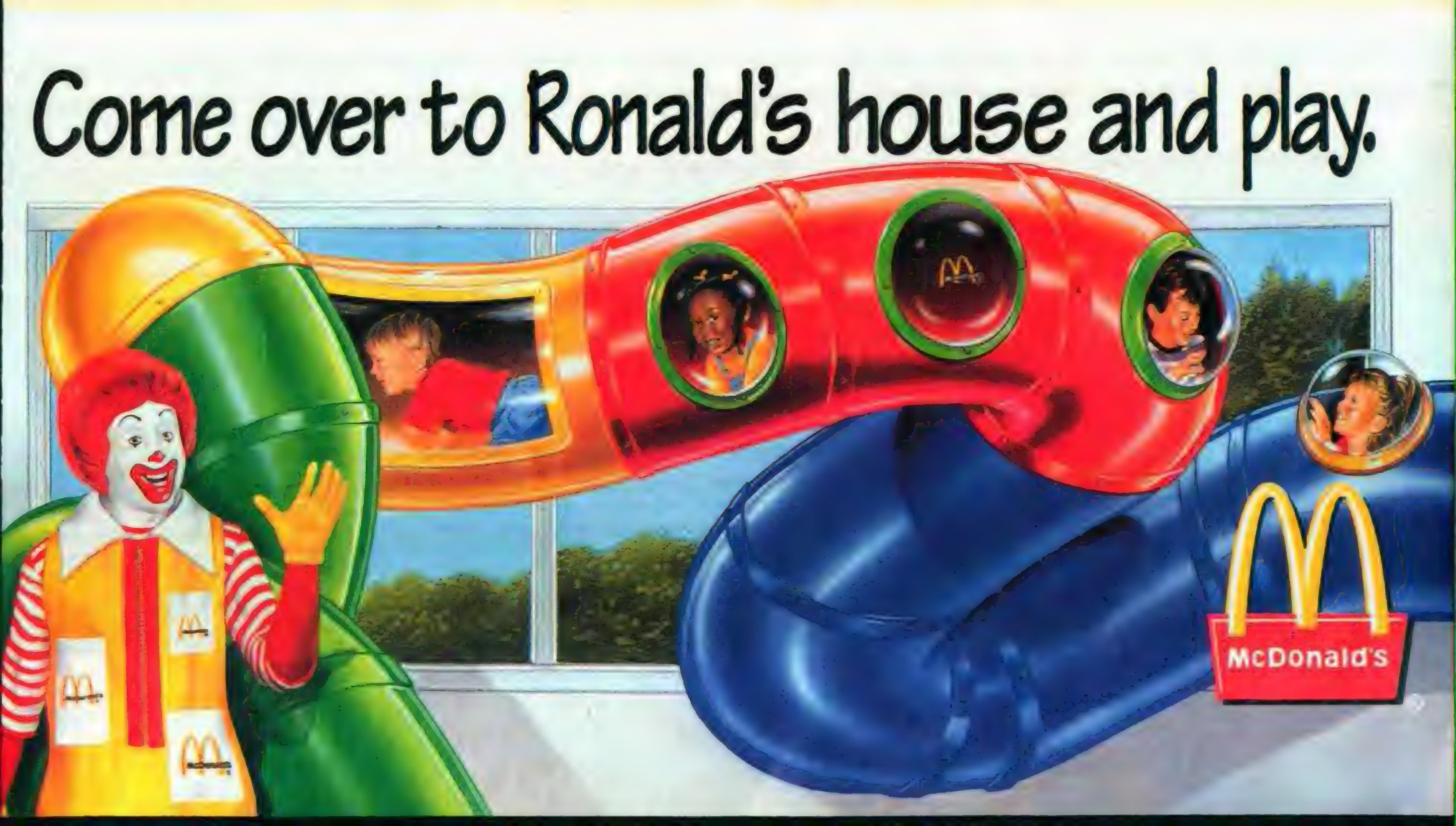
ERNST & YOUNG LLP

Chicago, Illinois
January 25, 1996

McDonald's Corporation Consolidated Statement of Income

(In millions of dollars, except per common share data) Years ended December 31,	**1995**	1994	1993
Revenues			
Sales by Company-operated restaurants	**$6,863.5**	$5,792.6	$5,157.2
Revenues from franchised restaurants	**2,931.0**	2,528.2	2,250.9
Total revenues	**9,794.5**	8,320.8	7,408.1
Operating costs and expenses			
Company-operated restaurants			
Food and packaging	**2,319.4**	1,934.2	1,735.1
Payroll and other employee benefits	**1,730.9**	1,459.1	1,291.2
Occupancy and other operating expenses	**1,497.4**	1,251.7	1,138.3
	5,547.7	4,645.0	4,164.6
Franchised restaurants–occupancy expenses	**514.9**	435.5	380.4
General, administrative and selling expenses	**1,236.3**	1,083.0	941.1
Other operating (income) expense–net	**(105.7)**	(83.9)	(62.0)
Total operating costs and expenses	**7,193.2**	6,079.6	5,424.1
Operating income	**2,601.3**	2,241.2	1,984.0
Interest expense–net of capitalized interest of $22.5, $20.6 and $20.0	**340.2**	305.7	316.1
Nonoperating income (expense)–net	**(92.0)**	(48.9)	7.8
Income before provision for income taxes	**2,169.1**	1,886.6	1,675.7
Provision for income taxes	**741.8**	662.2	593.2
Net income	**$1,427.3**	$1,224.4	$1,082.5
Net income per common share	**$ 1.97**	$ 1.68	$ 1.45
Dividends per common share	**$ .26**	$ .23	$ .21

The accompanying Financial Comments are an integral part of the consolidated financial statements.



McDonald's Corporation Consolidated Balance Sheet

(In millions of dollars)	December 31, **1995**	1994
Assets		
Current assets		
Cash and equivalents	**$ 334.8**	$ 179.9
Accounts receivable	**377.3**	348.1
Notes receivable	**36.3**	31.2
Inventories, at cost, not in excess of market	**58.0**	50.5
Prepaid expenses and other current assets	**149.4**	131.0
Total current assets	**955.8**	740.7
Other assets and deferred charges		
Notes receivable due after one year	**98.5**	80.0
Investments in and advances to affiliates	**656.9**	579.3
Miscellaneous	**357.3**	380.4
Total other assets and deferred charges	**1,112.7**	1,039.7
Property and equipment		
Property and equipment, at cost	**17,137.6**	15,184.6
Accumulated depreciation and amortization	**(4,326.3)**	(3,856.2)
Net property and equipment	**12,811.3**	11,328.4
Intangible assets–net	**534.8**	483.1
Total assets	**$15,414.6**	$13,591.9
Liabilities and shareholders' equity		
Current liabilities		
Notes payable	**$ 413.0**	$ 1,046.9
Accounts payable	**564.3**	509.4
Income taxes	**55.4**	25.0
Other taxes	**127.1**	102.1
Accrued interest	**117.4**	107.7
Other accrued liabilities	**352.5**	291.9
Current maturities of long-term debt	**165.2**	368.3
Total current liabilities	**1,794.9**	2,451.3
Long-term debt	**4,257.8**	2,935.4
Other long-term liabilities and minority interests	**664.7**	422.8
Deferred income taxes	**835.9**	840.8
Common equity put options		56.2
Shareholders' equity		
Preferred stock, no par value; authorized–165.0 million shares; issued–7.2 thousand and 11.2 million	**358.0**	674.2
Common stock, no par value; authorized–1.25 billion shares; issued–830.3 million	**92.3**	92.3
Additional paid-in capital	**387.4**	286.0
Guarantee of ESOP Notes	**(214.2)**	(234.4)
Retained earnings	**9,831.3**	8,625.9
Foreign currency translation adjustment	**(87.1)**	(114.9)
	10,367.7	9,329.1
Common stock in treasury, at cost; 130.6 and 136.6 million shares	**(2,506.4)**	(2,443.7)
Total shareholders' equity	**7,861.3**	6,885.4
Total liabilities and shareholders' equity	**$15,414.6**	$13,591.9

The accompanying Financial Comments are an integral part of the consolidated financial statements.

McDonald's Corporation
Consolidated Statement of Cash Flows

(In millions of dollars) Years ended December 31,	**1995**	1994	1993
Operating activities			
Net income	**$ 1,427.3**	$ 1,224.4	$ 1,082.5
Adjustments to reconcile to cash provided by operations			
Depreciation and amortization	**709.0**	628.6	568.4
Deferred income taxes	**(4.2)**	(5.6)	52.4
Changes in operating working capital items			
Accounts receivable increase	**(49.5)**	(51.6)	(48.3)
Inventories, prepaid expenses and other current assets increase	**(20.4)**	(15.0)	(9.6)
Accounts payable increase	**52.6**	105.4	45.4
Accrued interest increase (decrease)	**13.0**	(25.5)	(5.1)
Taxes and other liabilities increase	**158.3**	95.2	26.5
Other–net	**10.1**	(29.7)	(32.4)
Cash provided by operations	**2,296.2**	1,926.2	1,679.8
Investing activities			
Property and equipment expenditures	**(2,063.7)**	(1,538.6)	(1,316.9)
Purchases of restaurant businesses	**(110.1)**	(133.8)	(64.2)
Sales of restaurant businesses	**151.6**	151.5	114.2
Property sales	**66.2**	66.0	61.6
Notes receivable additions	**(33.4)**	(15.1)	(33.1)
Notes receivable reductions	**31.5**	56.7	75.7
Other	**(151.1)**	(92.6)	(55.3)
Cash used for investing activities	**(2,109.0)**	(1,505.9)	(1,218.0)
Financing activities			
Net short-term borrowings (repayments)	**(272.9)**	521.7	(8.9)
Long-term financing issuances	**1,250.2**	260.9	1,241.0
Long-term financing repayments	**(532.2)**	(536.9)	(1,185.9)
Treasury stock purchases	**(314.5)**	(495.6)	(620.1)
Common and preferred stock dividends	**(226.5)**	(215.7)	(201.2)
Other	**63.6**	39.4	62.6
Cash used for financing activities	**(32.3)**	(426.2)	(712.5)
Cash and equivalents increase (decrease)	**154.9**	(5.9)	(250.7)
Cash and equivalents at beginning of year	**179.9**	185.8	436.5
Cash and equivalents at end of year	**$ 334.8**	$ 179.9	$ 185.8
Supplemental cash flow disclosures			
Interest paid	**$ 331.0**	$ 323.9	$ 312.2
Income taxes paid	**$ 667.6**	$ 621.8	$ 521.7

The accompanying Financial Comments are an integral part of the consolidated financial statements.

McDonald's Corporation
Consolidated Statement of Shareholders' Equity

(Dollars and shares in millions, except per share data)	Preferred stock issued		Common stock issued		Additional paid-in capital	Guarantee of ESOP Notes	Retained earnings	Foreign currency translation adjustment	Common stock in treasury	
	Shares	Amount	Shares	Amount					Shares	Amount
Balance at December 31, 1992	11.6	$ 680.2	830.3	$92.3	$214.1	$(271.3)	$6,727.3	$(127.4)	(103.3)	$(1,422.8)
Net income							1,082.5			
Common stock cash dividends ($.21 per share)							(150.3)			
Preferred stock cash dividends (per share: $1.01 for Series B, $1.16 for Series C and $1.93 for Series E depositary share), (net of tax benefits of $4.1)							(46.9)			
Preferred stock conversion	(.2)	(2.9)			.5				.2	2.4
ESOP Notes payment						15.5				
Treasury stock acquisitions									(25.0)	(627.7)
Translation adjustments (including taxes of $1.6)								(64.8)		
Common equity put options expiration										94.0
Stock option exercises and other (including tax benefits of $23.0)					42.1	2.2			5.1	35.1
Balance at December 31, 1993	11.4	677.3	830.3	92.3	256.7	(253.6)	7,612.6	(192.2)	(123.0)	(1,919.0)
Net income							1,224.4			
Common stock cash dividends ($.23 per share)							(163.9)			
Preferred stock cash dividends (per share: $1.01 for Series B, $1.16 for Series C and $1.93 for Series E depositary share), (net of tax benefits of $3.7)							(47.2)			
Preferred stock conversion	(.2)	(3.1)			.5				.2	2.6
ESOP Notes payment						17.5				
Treasury stock acquisitions									(17.6)	(499.8)
Translation adjustments (including taxes of $50.8)								77.3		
Common equity put options issuance										(54.6)
Stock option exercises and other (including tax benefits of $20.3)					28.8	1.7			3.8	27.1
Balance at December 31, 1994	11.2	674.2	830.3	92.3	286.0	(234.4)	8,625.9	(114.9)	(136.6)	(2,443.7)
Net income							**1,427.3**			
Common stock cash dividends ($.26 per share)							**(181.4)**			
Preferred stock cash dividends (per share: $1.01 for Series B, $1.16 for Series C and $1.93 for Series E depositary share), (net of tax benefits of $1.6)							**(40.5)**			
Preferred stock conversion	**(11.2)**	**(316.2)**			**25.3**				**8.8**	**144.6**
ESOP Notes payment						**19.0**				
Treasury stock acquisitions									**(8.8)**	**(321.0)**
Translation adjustments (including taxes of $9.0)								**27.8**		
Common equity put options expiration										**56.2**
Stock option exercises and other (including tax benefits of $42.2)					**76.1**	**1.2**			**6.0**	**57.5**
Balance at December 31, 1995	**0.0***	**$ 358.0**	**830.3**	**$92.3**	**$387.4**	**$(214.2)**	**$9,831.3**	**$ (87.1)**	**(130.6)**	**$(2,506.4)**

**At December 31, 1995, 7.2 thousand shares were outstanding.*

The accompanying Financial Comments are an integral part of the consolidated financial statements.

McDonald's Corporation Financial Comments

Summary of significant accounting policies

Consolidation
The consolidated financial statements include the accounts of the Company and its subsidiaries. Investments in affiliates, in which the Company owns 50% or less, are carried at equity in the companies' net assets.

Estimates in financial statements
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Foreign currency translation
The functional currency of substantially all operations outside of the U.S. is the respective local currency, except for hyperinflationary countries where it is the U.S. Dollar.

Advertising costs
Production costs for radio and television advertising are expensed as of the date the commercials are initially aired. Advertising expenses included in costs of Company-operated restaurants and general, administrative and selling expenses were (in millions): 1995–$431.0; 1994–$385.6; 1993–$353.8.

Stock-based compensation
In October 1995, the Financial Accounting Standards Board issued Statement No. 123, *Accounting for Stock-Based Compensation*, which is effective in 1996. As permitted by the new standard, the Company will continue applying accounting prescribed by APB Opinion No. 25 and include additional footnote disclosures.

Property and equipment
Property and equipment are stated at cost, with depreciation and amortization provided on the straight-line method over the following estimated useful lives: buildings–up to 40 years; leasehold improvements–lesser of useful lives of assets or lease terms including option periods; and equipment–3 to 12 years.

Intangible assets
Intangible assets, consisting primarily of franchise rights reacquired from franchisees and affiliates, are amortized on the straight-line method over an average life of 30 years.

Accounting for the impairment of long-lived assets
In the first quarter of 1996, the Company will adopt Statement of Financial Accounting Standard No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of.* This statement requires impairment losses be recognized for long-lived assets, whether these assets are held for disposal or continue to be used in operations, when indicators of impairment are present and the fair value of assets are estimated to be less than carrying amounts. After reviewing its assets, the Company anticipates a pre-tax charge to operating income of approximately $16 million related to restaurant sites in Mexico on adoption of this new accounting standard.

Financial instruments
The Company utilizes derivatives in managing risk, but not for trading purposes. Non-U.S. Dollar financing transactions generally are effective as hedges of either long-term investments in or intercompany loans to foreign subsidiaries and affiliates. Foreign currency gains and losses on the hedges of long-term investments are recorded as foreign currency translation adjustment included in shareholders' equity. Gains and losses related to hedges of intercompany loans offset the gains and losses on intercompany loans and are recorded in nonoperating income (expense).

Interest-rate exchange agreements are designated and effective to modify the Company's interest-rate exposures. Net interest is accrued as either interest receivable or payable with the offset recorded in interest expense. Gains or losses from the early termination of interest rate swaps are amortized as an adjustment to interest expense over the shorter of the remaining life of the swap or the underlying debt being hedged.

The Company also purchases foreign currency options (with little or no intrinsic value) to hedge future foreign currency-denominated royalty and other payments received in the U.S. The premiums paid for these options are amortized over the option life and are recorded in nonoperating expense. Any realized gains on exercised options are deferred and amortized over the period being hedged.

Short-term forward foreign exchange contracts are also used to mitigate exposure on foreign currency-denominated cash flows received from affiliates and subsidiaries. These contracts are marked to market with the resulting gains or losses recorded in nonoperating income (expense). Gains and losses associated with these forward contracts have not been material.

If a hedged item matures or is extinguished, the associated derivative is marked to market with the resulting gain or loss recognized immediately. The derivative then is redesignated as a hedge of some other item or terminated.

The carrying amounts for cash and equivalents and notes receivable approximated fair value. No fair value was provided for noninterest-bearing security deposits by franchisees as these deposits are an integral part of the overall franchise arrangements.

Statement of cash flows
The Company considers short-term, highly liquid investments to be cash equivalents. The impact of changing foreign currencies on cash and equivalents was not material.

Number of restaurants in operation

The Company, its franchisees and affiliates operate traditional and satellite restaurants. Satellite restaurants generally offer a simplified menu and are smaller in size and sales volume compared to traditional restaurants.

December 31, 1995	1995	1994	1993
Operated by franchisees	**10,776**	9,982	9,288
Operated under business facilities lease arrangements	**464**	476	544
Operated by the Company	**3,513**	3,083	2,699
Operated by 50% or less owned affiliates	**2,056**	1,664	1,462
Total traditional restaurants	**16,809**	15,205	13,993
U.S.	**1,027**	494	114
Outside of the U.S.	**544**	251	56
Total satellite restaurants	**1,571**	745	170

Franchisees operating under business facilities lease arrangements have options to purchase the businesses.

In 1995, the Company purchased the remaining minority interest in its Hong Kong subsidiary. The results of operations of restaurant businesses purchased and sold in transactions with franchisees and affiliates were not material to the consolidated financial statements for periods prior to purchase and sale.

Other operating (income) expense–net

(In millions of dollars)	1995	1994	1993
Gains on sales of restaurant businesses	**$ (63.9)**	$(67.1)	$(48.2)
Equity in earnings of unconsolidated affiliates	**(96.5)**	(47.0)	(34.6)
Net losses from property dispositions	**49.2**	20.0	15.5
Other–net	**5.5**	10.2	5.3
Other operating (income) expense–net	**$(105.7)**	$(83.9)	$(62.0)

Gains on sales of restaurant businesses are recognized as income when the sales are consummated and other stipulated conditions are met. Proceeds from certain sales of restaurant businesses and property include notes receivable. The 1995 increase in equity in earnings of unconsolidated affiliates occurred because of greater income from affiliates, principally Japan.

Income taxes

Income before provision for income taxes, classified by source of income in the following table, was restated to reflect a more meaningful allocation of general, administrative and selling expenses between the U.S. and outside of the U.S. segments.

(In millions of dollars)	1995	1994	1993
U.S. and Corporate	**$1,026.2**	$1,084.9	$1,017.6
Outside of the U.S.	**1,142.9**	801.7	658.1
Income before provision for income taxes	**$2,169.1**	$1,886.6	$1,675.7

The provision for income taxes, classified by the timing and location of payment, was as follows:

(In millions of dollars)	1995	1994	1993
U.S. federal	**$363.7**	$379.3	$331.6
U.S. state	**60.5**	71.1	62.0
Outside of the U.S.	**321.8**	217.4	147.2
Current tax provision	**746.0**	667.8	540.8
U.S. federal	**(17.6)**	(21.2)	21.9
U.S. state	**(3.9)**	(3.0)	3.4
Outside of the U.S.	**17.3**	18.6	27.1
Deferred tax provision	**(4.2)**	(5.6)	52.4
Provision for income taxes	**$741.8**	$662.2	$593.2

Included in the 1993 deferred tax provision were $14.0 million attributable to a one-time, noncash revaluation of deferred tax liabilities resulting from the increase in the statutory U.S. federal income tax rate.

Net deferred tax liabilities consisted of:

(In millions of dollars)	December 31, 1995	1994
Property and equipment basis differences	**$ 898.6**	$ 852.8
Other	**197.8**	178.3
Total deferred tax liabilities	**1,096.4**	1,031.1
Deferred tax assets before valuation allowance *(1)*	**(360.5)**	(274.7)
Valuation allowance	**52.7**	41.4
Net deferred tax liabilities *(2)*	**$ 788.6**	$ 797.8

(1) Includes tax effects of loss carryforwards (in millions): 1995–$56.1; 1994–$45.1.
(2) Net of assets recorded in current income taxes (in millions): 1995–$47.3; 1994–$43.0.

Reconciliations of the statutory U.S. federal income tax rates to the effective income tax rates were as follows:

	1995	1994	1993
Statutory U.S. federal income tax rates	**35.0%**	35.0%	35.0%
State income taxes, net of related federal income tax benefit	**1.7**	2.3	2.5
Benefits and taxes related to foreign operations	**(2.9)**	(2.7)	(2.6)
Other	**.4**	.5	.5
Effective income tax rates	**34.2%**	35.1%	35.4%

Deferred U.S. income taxes have not been provided on basis differences related to investments in certain foreign subsidiaries and affiliates. These basis differences were approximately $915 million at December 31, 1995, and consisted primarily of undistributed earnings which are considered to be permanently invested in the businesses. If these earnings were not considered permanently invested, any incremental taxes that may need to be provided would not be material.

Property and equipment

(In millions of dollars)	December 31, 1995	1994
Land	**$ 3,251.5**	$ 2,950.1
Buildings and improvements on owned land	**6,419.7**	5,814.7
Buildings and improvements on leased land	**4,986.3**	4,211.2
Equipment, signs and seating	**1,942.3**	1,727.8
Other	**537.8**	480.8
	17,137.6	15,184.6
Accumulated depreciation and amortization	**(4,326.3)**	(3,856.2)
Net property and equipment	**$12,811.3**	$11,328.4

Depreciation and amortization were (in millions): 1995–$619.9; 1994–$550.5; 1993–$492.8. Contractual obligations for the acquisition and construction of property amounted to $268.2 million at December 31, 1995.

Segment and geographic information

The Company operates exclusively in the foodservice industry. Substantially all revenues result from the sale of menu products at restaurants operated by the Company, franchisees or affiliates. Operating income includes the Company's share of operating results of affiliates. All intercompany revenues and expenses are eliminated in computing revenues and operating income. Fees received from subsidiaries outside of the U.S. were (in millions): 1995–$358.4; 1994–$268.9; 1993–$202.8.

Segment operating income has been restated to reflect a

more meaningful allocation of general, administrative and selling expenses between the U.S. and international segments and includes an additional corporate category. In addition, segment assets have been restated to reflect an additional corporate category, primarily comprised of corporate cash, investments, asset portions of financing instruments and certain intangibles.

(In millions of dollars)	**1995**	1994	1993
U.S.	**$ 4,473.9**	$ 4,155.5	$ 3,931.2
Europe/Africa/Middle East	**3,255.1**	2,604.7	2,235.9
Asia/Pacific	**1,010.8**	730.7	494.4
Canada	**547.8**	546.1	557.8
Latin America	**506.9**	283.8	188.8
Total revenues	**$ 9,794.5**	$ 8,320.8	$ 7,408.1
U.S.	**$ 1,252.4**	$ 1,216.7	$ 1,156.4
Europe/Africa/Middle East	**840.3**	645.8	532.7
Asia/Pacific	**309.6**	233.5	180.1
Canada	**114.5**	116.8	111.2
Latin America	**132.7**	76.0	41.3
Corporate	**(48.2)**	(47.6)	(37.7)
Total operating income	**$ 2,601.3**	$ 2,241.2	$ 1,984.0
U.S.	**$ 7,040.2**	$ 6,492.7	$ 6,200.1
Europe/Africa/Middle East	**5,069.2**	4,257.5	3,473.2
Asia/Pacific	**1,813.6**	1,547.7	1,103.2
Canada	**510.5**	487.6	562.5
Latin America	**812.5**	616.4	510.9
Corporate	**168.6**	190.0	185.3
Total assets	**$15,414.6**	$13,591.9	$12,035.2

Debt financing

Line of credit agreements

Effective April 19, 1995, the Company canceled its existing $700.0 million line of credit agreement and entered into a new $675.0 million five-year revolving credit agreement with various banks. Accordingly, $675.0 million of notes maturing within one year have been reclassified as long-term debt. In June 1995, the Company entered into an additional $25.0 million revolving credit agreement with various banks for a renewable term of 364 days. Both agreements, which remained unused at December 31, 1995, provide for fees of .07% per annum on the total commitment. Each borrowing under the agreements bears interest at one of several specified floating rates selected by the Company at the time of borrowing. In addition, certain subsidiaries outside of the U.S. had unused lines of credit totaling $550.5 million at December 31, 1995; these were principally short-term and denominated in various currencies at local market rates of interest. The weighted average interest rates of short-term borrowings, comprised of commercial paper and foreign-denominated bank line borrowings, were 6.4% and 6.8% at December 31, 1995, and 1994, respectively.

Exchange agreements

The Company has entered into agreements for the exchange of various currencies, certain of which also provide for the periodic exchange of interest payments. These agreements, as well as additional interest-rate exchange agreements, expire through 2003. The interest-rate exchange agreements had a notional amount with a U.S. Dollar equivalent of $1.6 billion at December 31, 1995, and were denominated primarily in U.S. Dollars, Japanese Yen, Deutsche Marks and British Pounds Sterling. The net value of each exchange agreement was classified as an asset or liability based on its carrying amount, and any related interest income was netted against interest expense.

The counterparties to these agreements consist of a diverse group of financial institutions. The Company continually monitors its positions and the credit ratings of its counterparties, and adjusts positions as appropriate. The Company does not have a significant exposure to any individual counterparty, and has entered into master agreements that contain netting arrangements.

The Company purchased foreign currency options which were outstanding at December 31, 1995, with a notional amount equivalent to U.S. $187.7 million in various currencies, primarily Deutsche Marks, British Pounds Sterling and French Francs. At December 31, 1995, the unamortized premium related to these currency options was $4.9 million. There were no deferred gains related to these options at year end. Short-term forward foreign exchange contracts outstanding at December 31, 1995, had a U.S. Dollar equivalent of $27.6 million in various currencies, primarily Deutsche Marks, Japanese Yen and Swiss Francs.

Guarantees

The Company has guaranteed and included in total debt at December 31, 1995, $146.7 million of 7.4% ESOP Notes Series A and $77.1 million of 7.1% ESOP Notes Series B issued by the Leveraged Employee Stock Ownership Plan with payments through 2004 and 2006, respectively. Interest rates on the notes were adjusted in 1995 due to refinancing of certain sinking fund payments. The Company has agreed to repurchase the notes upon the occurrence of certain events. The Company also has guaranteed certain foreign affiliate loans totaling $60.6 million at December 31, 1995.

The Company was a general partner in 92 domestic partnerships with total assets of $407.9 million and total liabilities of $232.5 million at December 31, 1995.

Fair values

	December 31, 1995	
(In millions of dollars)	Carrying amount	Fair value
Liabilities		
Debt	$4,204.9	$4,399.9
Notes payable	413.0	413.0
Foreign currency exchange agreements	218.1	287.2
Interest-rate exchange agreements		(1.1)
Total liabilities	4,836.0	5,099.0
Assets		
Foreign currency exchange agreements	40.6	28.8
Net debt	$4,795.4	$5,070.2
Purchased foreign currency options	$ 4.9	$ 5.3

Short-term forward foreign exchange contracts were recorded at their fair value of $27.6 million at December 31, 1995. The fair value of the debt and notes payable obligations (excluding capital leases), the currency and interest-rate exchange agreements, and the foreign currency options was estimated using quoted market prices, various pricing models or discounted cash flow analyses. The Company has no current plans to retire a significant amount of its debt prior to maturity. Given the market value of its common stock and its significant real estate holdings, the Company believes that the fair value of total assets was higher than their carrying value at December 31, 1995.

Debt obligations

The Company has incurred debt obligations principally through public and private offerings and bank loans. The terms of most debt obligations contain restrictions on Company and subsidiary mortgages and long-term debt of certain subsidiaries. Under certain agreements, the Company has the option to retire debt prior to maturity, either at par or at a premium over par. The following table summarizes these debt obligations, including the gross effects of currency and interest-rate exchange agreements.

		Interest rates *(1)* December 31		Amounts outstanding December 31		Aggregate maturities by currency for 1995 balances					
(In millions of U.S. Dollars)	Maturity dates	**1995**	1994	**1995**	1994	1996	1997	1998	1999	2000	Thereafter
Fixed–original issue		**7.5%**	8.2%	**$ 2,172.6**	$ 1,647.0						
Fixed–converted via exchange agreements *(2)*		**5.9**	5.7	**(1,844.2)**	(1,483.6)						
Floating		**5.5**	4.5	**216.5**	167.3						
Total U.S. Dollars	1996-2033			**544.9**	330.7	$ 120.7	$ (60.2)	$(230.2)	$(211.1)	$(46.6)	$ 972.3
Fixed		**6.0**	6.4	**552.7**	440.7						
Floating		**4.4**	5.4	**376.6**	339.5						
Total Deutsche Marks	1996-2007			**929.3**	780.2	231.7	130.7	280.0	139.3	147.3	0.3
Fixed		**7.8**	8.3	**727.3**	527.2						
Floating		**5.8**	6.0	**177.4**	292.3						
Total French Francs	1996-2003			**904.7**	819.5	75.9	126.0	163.2	190.7	0.1	348.8
Fixed		**4.4**	4.3	**409.5**	375.8						
Floating		**0.6**	2.0	**130.5**	135.5						
Total Japanese Yen	1996-2023			**540.0**	511.3	154.7	96.7				288.6
Fixed		**9.3**	10.4	**382.3**	464.9						
Floating		**6.2**	6.1	**121.1**	197.2						
Total British Pounds Sterling	1996-2003			**503.4**	662.1	149.8		21.1		85.4	247.1
Fixed		**11.0**	11.1	**113.8**	113.3						
Floating		**7.6**	7.4	**100.5**	106.3						
Total Australian Dollars	1996-2001			**214.3**	219.6	141.6	1.6	65.2	1.7	1.7	2.5
Fixed		**6.2**	6.4	**136.9**	149.9						
Floating		**4.2**	5.7	**32.2**	26.6						
Total Netherland Guilders	1996-1999			**169.1**	176.5	7.3		108.8	53.0		
Fixed		**9.0**	11.8	**130.3**	114.5						
Floating		**6.0**	6.0	**22.0**	39.3						
Total Canadian Dollars	1996-2021			**152.3**	153.8	95.5	55.2	0.2	0.2	0.2	1.0
Fixed		**8.7**	8.1	**77.6**	97.0						
Floating		**6.6**	6.4	**40.1**	37.6						
Total Hong Kong Dollars	1996-2008			**117.7**	134.6	38.4	30.6	17.6	11.1	11.2	8.8
Fixed		**4.7**	4.4	**81.1**	97.6						
Floating		**2.3**		**30.4**							
Total Swiss Francs	1996-2000			**111.5**	97.6	16.1		34.7		60.7	
Fixed		**8.5**	8.0	**43.9**	41.0						
Floating		**7.9**	8.2	**65.3**	69.6						
Total New Taiwan Dollars	1996-2001			**109.2**	110.6	31.7	16.3	12.7	8.2		40.3
Fixed		**9.5**	9.5	**63.5**	58.7						
Floating		**11.3**	8.2	**39.1**	7.1						
Total Spanish Pesetas	1997-1998			**102.6**	65.8		39.1	63.5			
Fixed		**8.4**	9.0	**161.7**	133.2						
Floating		**10.9**	12.3	**234.7**	117.6						
Total other currencies	1996-2016			**396.4**	250.8	163.7	116.8	19.8	51.1	11.8	33.2
Debt obligations including the net effects of currency and interest-rate exchange agreements				**4,795.4**	4,313.1	1,227.1	552.8	556.6	244.2	271.8	1,942.9
Obligations supported by long-term line of credit agreement						(675.0)				675.0	
Net asset positions of currency exchange agreements (included in miscellaneous other assets)				**40.6**	37.5	26.1		0.5	2.2		11.8
Total debt obligations				**$ 4,836.0**	$ 4,350.6	$ 578.2	$552.8	$ 557.1	$ 246.4	$946.8	$1,954.7

(1) Weighted average effective rate, computed on a semi-annual basis.

(2) A portion of U.S. Dollar fixed-rate debt effectively has been converted into other currencies and/or into floating-rate debt through the use of exchange agreements. The rates shown reflect the fixed rate on the receivable portion of the exchange agreements. All other obligations in this table reflect the gross effects of these and other exchange agreements.

Other long-term liabilities and minority interests

(In millions of dollars)	December 31, **1995**	1994
Security deposits by franchisees	**$155.0**	$141.2
Preferred interests in consolidated subsidiaries	**400.6**	162.4
Minority interests in consolidated subsidiaries	**33.2**	50.3
Other	**75.9**	68.9
Other long-term liabilities and minority interests	**$664.7**	$422.8

Preferred interests in consolidated subsidiaries reflects preferred stock issued by Company subsidiaries. One subsidiary issued preferred stock denominated in British Pounds Sterling as follows: £150 million of Series C, D and E at an average rate of 7.04% in 1995; £25 million of 5.42% Series B in 1994; and £50 million of 5.91% Series A in 1993. Unless redeemed at the Company's option, each series of preferred stock must be redeemed five years from the date of issuance. These combined preferred interests were valued at U.S. $349.4 million at December 31, 1995. Another subsidiary issued additional preferred stock in 1994 and 1993. At December 31, 1995, the preferred stock of this subsidiary had a dividend rate of 14.6% (adjusted annually) and was redeemable at the option of the holder at a redemption price totaling $51.2 million.

Included in other was the $100.00 per share redemption value of 181,868 shares of 5% Series D Preferred Stock. This stock, which carries one vote per share, must be redeemed on the occurrence of specified events.

Leasing arrangements

At December 31, 1995, the Company was lessee at 2,976 locations under ground leases (the Company leases land and constructs and owns buildings) and at 4,204 locations under improved leases (lessor owns land and buildings). Land and building lease terms for most traditional restaurants are generally for 20 to 25 years and, in many cases, provide for rent escalations and one or more five-year renewal options with certain leases providing purchase options. Most satellite restaurants operate under improved leases which generally include percentage rent payments only and are of a shorter term. For most locations, the Company is obligated for the related occupancy costs which include property taxes, insurance and maintenance. In addition, the Company is lessee under noncancelable leases covering offices and vehicles.

Future minimum payments required under operating leases with initial terms of one year or more are:

(In millions of dollars)	Restaurant	Other	Total
1996	$ 400.3	$ 45.0	$ 445.3
1997	392.7	41.9	434.6
1998	377.3	36.9	414.2
1999	359.0	28.0	387.0
2000	341.0	23.5	364.5
Thereafter	3,379.8	117.4	3,497.2
Total minimum payments	$5,250.1	$292.7	$5,542.8

Rent expense was (in millions): 1995–$497.6; 1994–$394.4; 1993–$339.0. Included in these amounts were percentage rents based on sales by the related restaurants in excess of minimum rents stipulated in certain lease agreements (in millions): 1995–$73.5; 1994–$40.3; 1993–$29.0.

Franchise arrangements

Franchise arrangements include a lease and a license and generally provide for initial fees as well as continuing rent and service fee payments to the Company, based upon a percentage of sales with minimum rent payments. Franchisees are granted the right to operate a McDonald's restaurant using the McDonald's system. Additionally, franchisees are provided the use of a restaurant facility generally for a period of 20 years. They are required to pay related occupancy costs which include property taxes, insurance, maintenance and a refundable, noninterest-bearing security deposit. On a limited basis the Company accepts notes from franchisees which generally are secured by interests in restaurant equipment and franchises.

(In millions of dollars)	**1995**	1994	1993
Owned sites	**$ 708.6**	$ 633.4	$ 573.6
Leased sites	**521.4**	446.0	381.7
Minimum rents	**1,230.0**	1,079.4	955.3
Percentage rent and service fees	**1,638.4**	1,411.8	1,272.1
Initial fees	**62.6**	37.0	23.5
Revenues from franchised restaurants	**$2,931.0**	$2,528.2	$2,250.9

Future minimum rent payments due to the Company under franchise arrangements are:

(In millions of dollars)	Owned sites	Leased sites	Total
1996	$ 787.9	$ 547.1	$ 1,335.0
1997	776.1	541.7	1,317.8
1998	780.7	542.3	1,323.0
1999	763.1	528.9	1,292.0
2000	745.7	512.5	1,258.2
Thereafter	6,937.0	4,825.4	11,762.4
Total minimum payments	$10,790.5	$7,497.9	$18,288.4

At December 31, 1995, net property and equipment under franchise arrangements totaled $7.3 billion (including land of $2.2 billion) after deducting accumulated depreciation and amortization of $2.2 billion.

Profit sharing program

The Company has a program for U.S. employees which includes profit sharing, 401(k) (McDESOP), and leveraged employee stock ownership (LESOP) features. McDESOP allows participants to make contributions which are partially matched by the Company. Profit sharing assets and contributions made by McDESOP participants can be invested in McDonald's common stock or among several other investment alternatives. Company contributions to McDESOP are invested in McDonald's common stock. Due to the conversion of all remaining preferred shares in 1995, the LESOP is now invested only in McDonald's common stock.

Staff, executives and restaurant managers participate in profit sharing contributions and shares released under the LESOP based on participant's compensation. The profit sharing contribution is discretionary, and the amount is determined by the Company each year. The LESOP contribution is based on the loan payments necessary to amortize the debt initially incurred to acquire the stock. Shares held by the LESOP are allocated to participants as the loan is repaid. Dividends on shares held by the LESOP are used to service the debt, and shares are released to participants to replace the div-

idends on shares that have been allocated to them. LESOP costs shown in the following table were based upon the cash paid for loan payments less these dividends.

(In millions of dollars)	**1995**	1994	1993
Profit sharing	**$14.2**	$15.2	$13.5
LESOP	**29.9**	25.4	25.5
McDESOP	**11.7**	9.5	8.1
U.S. program costs	**$55.8**	$50.1	$47.1

Certain subsidiaries outside of the U.S. also offer profit sharing, stock purchase or other similar benefit plans. Total plan costs outside of the U.S. were (in millions): 1995–$26.6; 1994–$18.1; 1993–$13.0.

Profit sharing costs were restated to reflect a more meaningful allocation of program costs between the U.S. and outside of the U.S. segments. The Company does not provide any other postretirement benefits, and postemployment benefits were immaterial.

Stock options

At December 31, 1995, the Company had three stock-based compensation plans which were accounted for under APB Opinion No. 25. Accordingly, no compensation cost has been recognized in the consolidated financial statements for these plans because options to purchase common stock are granted at prices not less than the fair market value of the stock on date of grant.

Substantially all of the options under these plans become exercisable in four equal biennial installments, commencing one year from date of grant, and expire ten years from date of grant. At December 31, 1995, 105.1 and 37.0 million shares of common stock were reserved for issuance and for future grants, respectively, under these plans.

	Number of options *(In millions)*			Weighted average exercise price		
	1995	1994	1993	**1995**	1994	1993
Options outstanding at January 1	**62.3**	55.1	50.3	**$21.02**	$18.16	$15.54
Options granted	**13.7**	13.6	12.0	**33.24**	29.90	26.25
Options exercised	**(6.0)**	(4.1)	(5.3)	**15.76**	12.14	11.01
Options forfeited	**(1.9)**	(2.3)	(1.9)	**24.55**	18.72	17.28
Options outstanding at December 31	**68.1**	62.3	55.1	**$23.86**	$21.02	$18.16
Options exercisable at December 31	**24.4**	21.4	17.6			

Options granted during each year were 1.96%, 1.94% and 1.69% of average common shares outstanding for 1995, 1994 and 1993, respectively. Stock options were granted to approximately 8,500, 7,700 and 6,800 employees in 1995, 1994 and 1993, respectively. Shares are issued from treasury stock to employees upon exercise of stock options.

The potential dilution of common shares outstanding upon exercise of stock options shown in the following table represents the number of common shares issuable upon exercise less the number of common shares that could be repurchased with proceeds from the exercise, based upon the respective December 31 prices of the Company's common stock. As such, this potential dilution was 2.9%, 1.6% and 1.8% of shares outstanding at year-end 1995, 1994 and 1993, respectively.

(Shares in millions)	**1995**	1994	1993
Common shares outstanding at year end	**699.8**	693.7	707.3
Potential dilution of common shares outstanding from option exercises	**20.4**	11.4	12.6
Average option exercise price	**$15.76**	$12.14	$11.01
Average cost of treasury stock issued for option exercises	**$ 7.16**	$ 7.05	$ 6.65

As shown above, the average option exercise price has consistently exceeded the average cost of treasury stock issued for option exercises because of the Company's practice of prefunding the program through share repurchase. As a result, stock option exercises have generated additional capital, as cash received from employees has exceeded the Company's average acquisition cost of treasury stock.

December 31, 1995					
	Options outstanding			Options exercisable	
Range of exercise prices	Number of options *(In millions)*	Weighted average remaining contractual life *(Years)*	Weighted average exercise price	Number of options *(In millions)*	Weighted average exercise price
$ 9 to 12	5.5	2.0	$11.05	5.5	$11.05
14 to 18	17.0	5.0	15.42	9.2	15.30
21 to 30	32.1	7.4	26.58	9.6	25.71
33 to 42	13.5	9.3	33.27	.1	33.19
$ 9 to 42	68.1	6.7	$23.86	24.4	$18.50

Capital stock

Per common share information

Income used in the computation of per common share information was reduced by preferred stock cash dividends (net of tax benefits). In 1995, it was also reduced by $3.9 million for the one-time effect of the Company's offer to exchange its Series E 7.72% Cumulative Preferred Stock for subordinated debt securities completed on June 30, 1995, and by an additional $.4 million for the effect of the Company's repurchase of additional Series E preferred stock in the third quarter. Adjusted net income was divided by the weighted average shares of common stock outstanding during each year (in millions): 1995–701.5; 1994–701.8; 1993–711.8. Including the effect of potentially dilutive securities, fully diluted earnings per common share amounts and increases were: 1995–$1.92, 18%; 1994–$1.63, 16%; 1993–$1.41, 12%.

Preferred stock

In December 1992, the Company issued $500.0 million of Series E 7.72% Cumulative Preferred Stock; 10,000 preferred shares are equivalent to 20.0 million depositary shares having a liquidation preference of $25.00 per depositary share. Each preferred share is entitled to one vote under certain circumstances and is redeemable at the option of the Company beginning on December 3, 1997, at its liquidation preference plus accrued and unpaid dividends. On June 30, 1995, the Company completed an exchange of approximately 5.2 million depositary shares, representing 2,600 shares of Series E 7.72% Cumulative Preferred Stock, for subordinated debt securities. In the third quarter of 1995, the Company repurchased approximately

.5 million depositary shares equivalent to 250 shares of Series E 7.72% Cumulative Preferred Stock.

In September 1989 and April 1991, the Company sold $200.0 million of Series B and $100.0 million of Series C ESOP Convertible Preferred Stock to the LESOP. The LESOP financed the purchase by issuing notes which are guaranteed by the Company and are included in long-term debt, with an offsetting reduction in shareholders' equity. Each preferred share had a liquidation preference of $14.375 and $16.5625, respectively, and was convertible to a minimum of .7692 and .8 common share (conversion rate), respectively. Upon termination of employment, employees were guaranteed a minimum value payable in common shares equal to the greater of the conversion rate; the fair market value of their preferred shares; or the liquidation preference plus accrued dividends, not to exceed one common share. Each preferred share was entitled to one vote and was redeemable at the option of the Company. In 1992, 8.2 million Series B shares were converted into 6.4 million common shares. During 1995, the remaining 5.2 million Series B shares and 5.8 million Series C shares were converted into 8.7 million common shares.

Common equity put options

During May and June 1995, the Company sold 1.5 million common equity put options which expired unexercised in August and September. In August 1995, the Company sold .5 million common equity put options of which .4 million were exercised and .1 million expired unexercised in October 1995.

In June 1994, the Company sold 2.0 million common equity put options which were exercised in November 1994. During November and December 1994, the Company sold an additional 2.0 million common equity put options which expired unexercised in February 1995. At December 31, 1994, the $56.2 million exercise price of these options was classified in common equity put options and the related offset was recorded in common stock in treasury, net of premiums received.

In April 1993, 2.0 million common equity put options issued by the Company in December 1992, having an exercise price of $94.0 million, expired unexercised. In April 1993, the Company also sold 1.0 million common equity put options which expired unexercised in July 1993.

Shareholder rights plan

In December 1988, the Company declared a dividend of one Preferred Share Purchase Right (Right) on each outstanding share of common stock. Under certain conditions, each Right may be exercised to purchase one four-hundredth of a share of Series A Junior Participating Preferred Stock (the economic equivalent of one common share) at an exercise price of $62.50 (which may be adjusted under certain circumstances), and is transferable apart from the common stock ten days following a public announcement that a person or group has acquired beneficial ownership of 20% or more of the outstanding common shares (which threshold may be reduced by the Board of Directors to as low as 10%), or ten business days following the commencement or announcement of an intention to make a tender or exchange offer resulting in beneficial ownership by a person or group exceeding the threshold.

Once the threshold has been exceeded, or if the Company is acquired in a merger or other business combination transaction, each Right will entitle the holder, other than such person or group, to purchase at the then current exercise price, stock of the Company or the acquiring company having a market value of twice the exercise price.

Each Right is nonvoting and expires on December 28, 1998, unless redeemed by the Company, at a price of $.0025, at any time prior to the public announcement that a person or group has exceeded the threshold. At December 31, 1995, 2.1 million shares of the Series A Junior Participating Preferred Stock were reserved for issuance under this plan.

Quarterly results (unaudited)

(In millions of dollars, except per common share data)	Quarters ended December 31		September 30		June 30		March 31	
	1995	1994	**1995**	1994	**1995**	1994	**1995**	1994
Systemwide sales	**$7,734.4**	$6,964.0	**$7,866.6**	$6,944.0	**$7,641.3**	$6,370.2	**$6,671.6**	$5,709.2
Revenues								
Sales by Company-operated restaurants	**$1,812.2**	$1,586.8	**$1,811.9**	$1,551.8	**$1,727.8**	$1,409.3	**$1,511.6**	$1,244.7
Revenues from franchised restaurants	**773.3**	683.3	**768.2**	673.6	**739.8**	620.0	**649.7**	551.3
Total revenues	**2,585.5**	2,270.1	**2,580.1**	2,225.4	**2,467.6**	2,029.3	**2,161.3**	1,796.0
Operating costs and expenses								
Company-operated restaurants	**1,476.8**	1,267.7	**1,448.0**	1,231.3	**1,389.7**	1,128.6	**1,233.2**	1,017.4
Franchised restaurants	**137.2**	117.8	**131.7**	111.7	**127.8**	105.6	**118.2**	100.4
General, administrative and selling expenses	**341.4**	309.4	**314.1**	277.1	**305.4**	257.0	**275.4**	239.5
Other operating (income) expense–net	**(16.0)**	(0.6)	**(35.8)**	(32.6)	**(41.7)**	(30.3)	**(12.2)**	(20.4)
Total operating costs and expenses	**1,939.4**	1,694.3	**1,858.0**	1,587.5	**1,781.2**	1,460.9	**1,614.6**	1,336.9
Operating income	**646.1**	575.8	**722.1**	637.9	**686.4**	568.4	**546.7**	459.1
Interest expense	**87.7**	80.1	**86.1**	80.2	**85.4**	73.6	**81.0**	71.8
Nonoperating income (expense)–net	**(18.8)**	(24.1)	**(26.5)**	(16.6)	**(16.1)**	1.7	**(30.6)**	(9.9)
Income before provision for income taxes	**539.6**	471.6	**609.5**	541.1	**584.9**	496.5	**435.1**	377.4
Provision for income taxes	**172.8**	162.7	**209.4**	191.3	**205.2**	174.2	**154.4**	134.0
Net income	**$ 366.8**	$ 308.9	**$ 400.1**	$ 349.8	**$ 379.7**	$ 322.3	**$ 280.7**	$ 243.4
Net income per common share	**$ .51**	$ .43	**$ .56**	$ .48	**$ .52**	$ .44	**$ .39**	$ .33
Dividends per common share	**$ .06¾**	$ .06	**$ .06¾**	$ .06	**$ .06¾**	$ .06	**$ .06**	$ .05⅜

"Visions of McDonald's restaurants dotting crossroads all over the country paraded through my brain. This will go anyplace, I thought. Anyplace!"

Ray Kroc, 1954
Founder, McDonald's Corporation

"One of the really remarkable things about McDonald's going international was that it meant pioneering again– only this time, the entire world was our frontier."

Fred Turner, 1977
Currently Senior Chairman, McDonald's Corporation

"We're going to hit 20,000 McDonald's restaurants by the end of 1996. In the year 2000, we're going to have 30,000. Beyond that, even we can't predict..."

Mike Quinlan, 1995
Chairman and CEO, McDonald's Corporation

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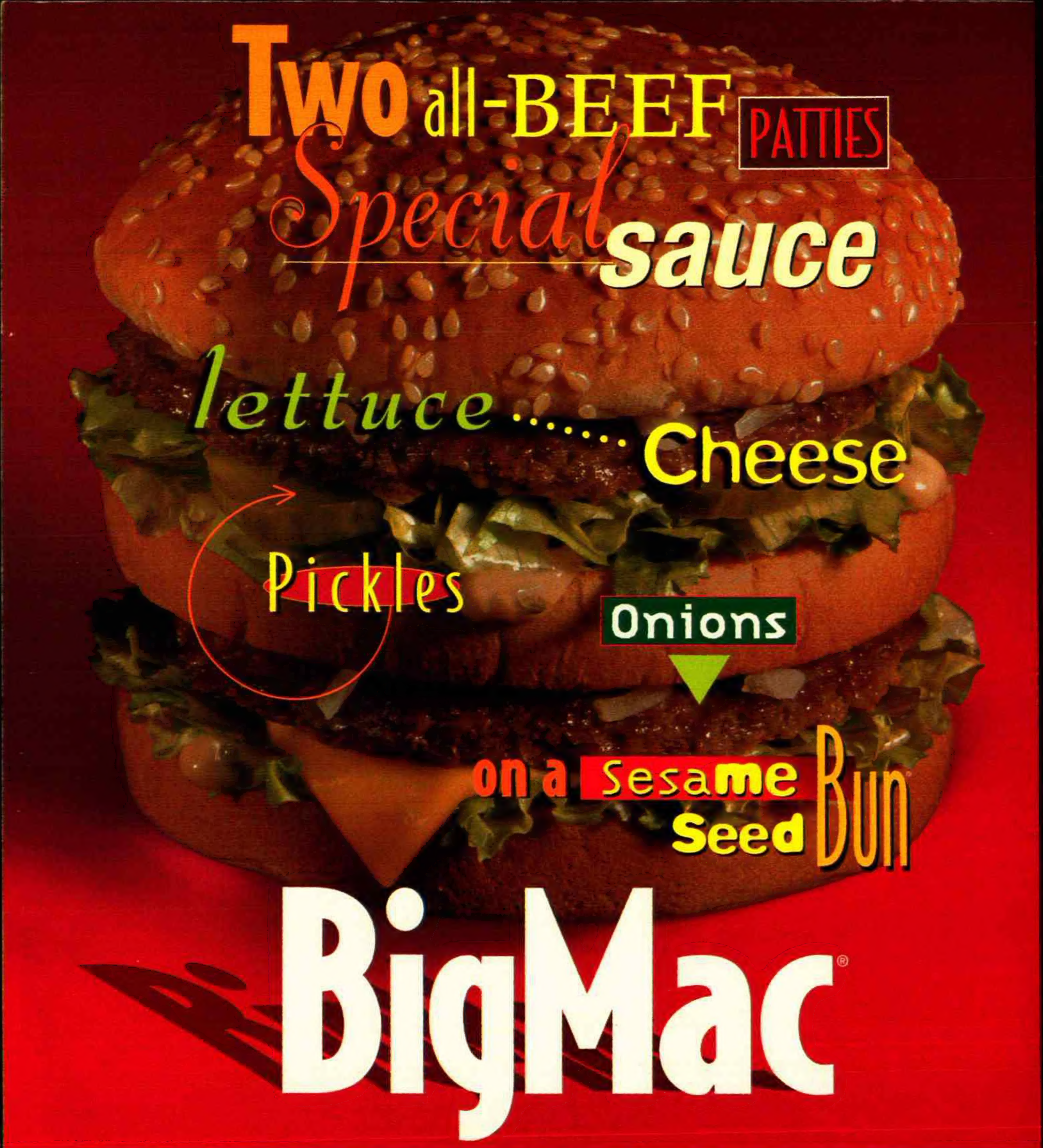

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